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AGRICULTURAL COMMODITY DISTRIBUTION ACT OF 1987

ONLY:

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MARKETING, CONSUMER RELATIONS, AND NUTRITION

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 1340

MARCH 18, 1987

Serial No. 100-6

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AGRICULTURAL COMMODITY DISTRIBUTION ACT OF 1987

WEDNESDAY, MARCH 18, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING,
CONSUMER RELATIONS, AND NUTRITION,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:30 p.m., in room 1310, Longworth House Office Building, Hon. Leon E. Panetta (chairman of the subcommittee) presiding.

Present: Representatives Olin, Emerson, Schuette, and Herger.

Staff present: Phillip L. Fraas, counsel; Francie Monaghan, clerk; James A. Rotherham, Liz Turner, Anita R. Brown, and Lynn Gallagher.

OPENING STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. PANETTA. The Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition is in session for the purpose of considering H.R. 1340, the Agricultural Commodity Distribution Act of 1987.

This legislation, which I have introduced along with Chairman de la Garza, the Honorable Ed Madigan, who is the ranking minority member on the full committee, Bill Emerson who is ranking minority member on the subcommittee, the Honorable Thomas Foley, majority leader, Tony Coelho, Jim Jeffords, and a number of others, is aimed at improving the Commodity Distribution Program that is currently operated by the U.S. Department of Agriculture. H.R. 1340, the act that we are currently considering, seeks to improve the program by making it more efficient and responsive to farmers and the recipients it serves.

For more than 50 years now, the U.S. Department of Agriculture has helped stabilize our agricultural industry by removing surplus foods from the marketplace and donating them to a number of nutrition programs, the largest of which is the school lunch program. The commodity purchase and distribution program has allowed us to provide our school children and other eligible recipients with wholesome and nutritious meals and, at the same time, to assist our nation's farmers.

It has really been, I think, an outstanding program. It serves two very important purposes: removing surpluses which helps our farmers and delivering good food to our children. Last year, USDA

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donated approximately $1 billion of a wide variety of surplus commodities that were used to feed more than 24 million children in this country.

This food is acquired by the Department under three legal authorizations at the present time: section 416 of the Agricultural Act of 1946, section 32 amendments to the Agricultural Adjustment Act of 1935, and section 6 of the National School Lunch Act.

Section 32 purchases are used to purchase surplus perishable, nonprice support commodities such as fruits and vegetables, and meat and poultry products. The purchases are financed from 30 percent of the annual duties imposed on U.S. imports.

As important as the commodity distribution program is, the problem at present is that it needs some repair. For almost a decade now, it has been the subject of growing criticism and controversy.

In fact, in the 1981 agricultural appropriations bill, the Secretary of Agriculture was instructed to conduct a 3-year pilot program in some 60 school districts comparing the efficiency of the USDA commodity distribution program to the commodity letter of credit, the so-called CLOC, approach or an all-cash assistance type of approach. Under the CLOC system, the Department would not purchase or distribute commodities, but would rather distribute a commodity specific, almost food stamp-like letter of credit. Participating institutions would then redeem the coupons for the specified foods at a local wholesaler or food processor.

At the conclusion of the pilot project, the Department announced that the existing commodity program worked better than either of the alternative systems when all of the Federal policy goals were considered. Nevertheless, to ensure sufficient time to assess the impact and the effectiveness of these other alternative approaches, the Food Security Act of 1985 extended these pilot projects through June 30, 1987.

The Department found that the existing program provided significantly more food to the school lunch program and greater assistance to farmers. It also found that the alternative systems were less effective in addressing localized surplus commodity and marketing problems.

However, this review also showed that significant improvements could be made in the existing commodity distribution program. Users of the program continue to cite significant problems with the program. For example, they argue that the commodities are inconsistent in quality, that they are not packaged in usable forms and sizes, that they are not delivered on a schedule that coincides with the academic year, and are not easily replaced when delivered out of condition. Schools have received deliveries of cheese in May and have been forced to store the food through the summer. This is not an efficient way to operate a commodity distribution program.

In an effort to try to improve the program, a series of recommendations were forwarded to USDA in March of 1986 by the American School Food Services Association and the American Frozen Food Association. H.R. 1340 embodies these recommendations and has been endorsed by a coalition of more than 25 general farm and commodity organizations.

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The intent of the bill is very simple: to try to make the commodity distribution system more responsive to the needs of recipient schools and elderly nutrition programs, to the maximum extent practicable, while simultaneously meeting the Department's price support and surplus removal obligations.

The bill's primary features include: setting guidelines for intrastate distributions, for example, timeliness and advance notice of deliveries, packaging the food in manageable sizes and forms, providing recipient agencies with suggested recipes to help these agencies efficiently use the bulk quantities that are provided in this food.

I understand that Secretary Lyng appointed a Department task force, headed by Deputy Secretary Peter Myers, to examine these issues and has expressed his support for improving the program.

This bill is fiscally responsible. It contains no mandatory spending provisions. The preliminary estimate by the Congressional Budget Office is that discretionary spending would be less than $500,000. I am confident that the Department of Agriculture will be able to absorb this cost within the appropriations that are already provided.

It is important that we make every effort to improve this program and provide a proper statutory base to implement these recommendations. H.R. 1340 is the end result of a long and credible effort to improve the commodity distribution program by organizations that use the program on a daily basis.

If we do not act promptly to address the problems that have been identified, there may be temptation in some quarters to simply eliminate this very important program. That would do damage not only to the farm community but to students and children that are served by this program. I believe the improvements that are in H.R. 1340 deserve very serious consideration and should be implemented to the quickest extent feasible.

The purpose of this hearing is to hear the views of a number of organizations regarding this legislation so that we can then proceed to a markup within the next few weeks and try to move this legislation as quickly as possible so that we can put these recommendations in place and, therefore, improve the effectiveness of what I think is a very important program.

We have seen commodity distribution programs used under the TEFAP program with regard to the poor. I think there is a growing understanding of the importance of the administration and the Government making use of these surpluses in a meaningful way, and this is the way to do it. You buy up these surpluses and give it to needy people, elderly citizens, or children. That, in anybody's book, makes a great deal of sense.

For that reason, it is important for us to try to ensure that this program does work and is effective.

[The prepared statement of Mr. Emerson and H.R. 1340 follow:]

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STATEMENT OF THE HONORABLE BILL EMERSON

SUBCOMMITTEE ON DOMESTIC MARKETING,
CONSUMER RELATIONS AND NUTRITION

March 18, 1987

Thank you Mr. Chairman. Our hearing today will focus on H.R. 1340, a bill introduced by the Chairman. This bill, which I enthusiastically co-sponsored, is aimed at improving the administration of the Department of Agriculture commodity donation program.

The commodity donation program, administered by the USDA, is an extremely important program. Through it, surplus commodities are made available to several different programs including the school lunch program and the nutrition programs for the elderly. In all, over $2 billion of commodities have been made available. These commodities range from cheese and butter to applesauce, corn and potatoes. Many of the organizations receiving these commodities recognize the importance of the commodities in administering their programs. In fact, in Missouri the School Food Service Association sponsors a Missouri Farm Products Week. This year it was held from February 8th through the 14th and many

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schools planned their menus based on Missouri-produced agricultural products. Such action not only recognizes the importance of Missouri-produced foods but the importance that USDA commodities have in the school lunch program.

The bill before us today seeks to improve the commodity donation program by making it more efficient for those organizations receiving commodities as well as insuring utilization of surplus USDA commodities. The bill seeks to improve the commodity donation program in the areas of the quality of the commodity through such means as field testing, the distribution methods used to get the commodities to the various school districts and the replacement of stale or spoiled commodities.

I am anxious to hear from the Department and our other witnesses on this issue. I am aware that Secretary Lyng has established a task force within the USDA on methods to improve their commodity purchase and distribution activities and that the Secretary believes this bill warrants careful consideration by the 100th Congress.

Thank you Mr. Chairman.

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100TH CONGRESS
1ST SESSION

H. R. 1340

To improve the administration of the Department of Agriculture Commodity distribution activities, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 3, 1987

Mr. PANETTA (for himself, Mr. DE LA GARZA, Mr. MADIGAN, Mr. EMERSON, Mr. FOLEY, Mr. COELHO, and Mr. JEFFORDS) introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To improve the administration of the Department of Agriculture commodity distribution activities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Commodity Distribution Act of 1987".

STATEMENTS OF POLICY AND PURPOSE

SEC. 2. (a) It is hereby declared to be the policy of Congress to support, as provided for in this Act, Department of Agriculture programs for the distribution of agricultural commodities as an effective means of removing agricultural

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surpluses from the market and providing nutritious foods to food assistance agencies.

(b) It is the purpose of this Act to improve the manner in which agricultural commodities acquired by the Department of Agriculture are distributed to food assistance agencies, the quality of the commodities that are distributed, and the degree to which this distribution responds to the needs of such agencies.

AMENDMENT TO THE AGRICULTURE AND FOOD ACT OF 1981

SEC. 3. Section 1114 of the Agriculture and Food Act of 1981 is amended by—

(1) redesignating subsections (b), (c), and (d) as (c), (d), and (e) respectively; and

(2) inserting after subsection (a) a new subsection as follows:

"(b)(1) In the case of agricultural commodities and food products acquired by the Department of Agriculture through its price support and surplus removal operations that are donated for use by schools, school food service authorities, and nutrition programs for the elderly authorized by Federal law to receive such commodities and products (referred to in this subsection as 'recipient agencies'), the Secretary of Agriculture shall—

"(A) develop specifications for the agricultural commodities and food products donated by the Secre-

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tary that (i) will ensure, to the maximum extent practicable, that the commodities and products are of the quality, size, and form most usable by recipient agencies, and (ii) are, to the maximum extent practicable, consistent with the Dietary Guidelines for Americans published by the Department of Agriculture and the Department of Health and Human Services;

"(B) make available the specifications developed under subparagraph (A) to State agencies responsible for intrastate distribution of donated agricultural commodities and food products to recipient agencies;

"(C) to the maximum extent practicable, make agricultural commodities and food products donated by the Secretary available in package sizes and forms requested by recipient agencies;

"(D) develop and implement an ongoing testing program, for existing and anticipated agricultural commodity and food product acquisitions, to determine their acceptability with persons participating in programs operated by recipient agencies, and take the results of this testing program into consideration in deciding the type and form of agricultural commodities and food products to be donated for use by recipient agencies;

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"(E) provide recipient agencies with suggested recipes for the use of agricultural commodities and food products and update these recipes on a regular basis to take into consideration changes in the dietary guidelines for Americans relating to the agricultural commodities and food products available to the Secretary for donation;

"(F) to the maximum extent practicable, develop and implement schedules for distribution of donated agricultural commodities and food products that are consistent with the needs of recipient agencies;

"(G) set guidelines for intrastate distribution of donated agricultural commodities and food products (relating to such matters as timeliness of deliveries, advance notice of delivery, and frequency of such distributions) and monitor the manner in which State agencies responsible for intrastate distribution carry out such distribution;

"(H) establish the value of agricultural commodities and food products donated by the Secretary for use by State agencies in determining the extent to which donations meet requirements set by Federal law; and

"(I) provide, by regulation, for—

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"(i) approval of reasonable intrastate fees charged recipient agencies by State agencies responsible for intrastate distribution of donated agricultural commodities and food products,

"(ii) minimum performance standards to be followed by State agencies responsible for intrastate distribution of donated agricultural commodities and food products,

"(iii) procedures for allocating agricultural commodities and food products among the States; and

"(iv) delivery schedules for donated agricultural commodities and food products.

"(2)(A) Agricultural commodities and food products received by recipient agencies that are stale, spoiled, or similarly not in compliance with the specifications developed under subparagraph (1)(A) shall be replaced under procedures established by the Secretary. Such procedures shall include a requirement for prompt notification to the State agency responsible for intrastate distribution of donated agricultural commodities and food products by a recipient agency receiving commodities or products that are stale, spoiled, or similarly not in compliance with the specifications developed under subparagraph (1)(A).

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"(B) The Secretary shall monitor the condition of agricultural commodities and food products designated for donation that are in Department of Agriculture storage to ensure, to the maximum extent practicable, that reasonably acceptable quality is maintained.

"(3)(A) Within six months after the date of enactment of the Agricultural Commodity Distribution Act of 1987, the Secretary shall promulgate regulations required under subparagraph (1)(I) and such other regulations as are determined necessary to implement this subsection.

"(B) Where appropriate, such regulations shall provide for nationally uniform implementation of this subsection.

"(4)(A) Notwithstanding any other provision of law, the Secretary shall establish an advisory council on the distribution of agricultural commodities and food products donated by the Department of Agriculture to recipient agencies. The advisory council shall be composed of not less than nine persons and include representatives of recipient agencies, food processors, and agricultural organizations. The advisory council shall meet at least semiannually with appropriate Department of Agriculture officials and provide guidance to the Secretary on regulations and policy development.

"(B) The advisory council shall terminate on September 30, 1992.".

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Mr. PANETTA. Our first witness is the Honorable John Bode, Assistant Secretary for Food and Consumer Services from the U.S. Department of Agriculture.

As always, your testimony will be included in the record, and you may summarize or extemporize.

STATEMENT OF JOHN BODE, ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY EDDIE KIMBRELL, DEPUTY ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE; ROBERT SINDT, DEPUTY ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE; GEORGE A. BRALEY, DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS, FOOD AND NUTRITION SERVICE

Mr. BODE. Thank you, Mr. Chairman. I would like to do that, particularly since so many of the points made in my testimony are essentially the same as those you made in your opening statement, and this is a subject on which I believe there is a good deal of agreement the Department has with the views you have expressed.

We feel it is very important, in summarizing, that the dual objectives of this program are recognized. This is a program of assistance to American agriculture and America's children, America's needy, and America's elderly and assistance that is provided to them through the commodity programs.

The study that was done you have alluded to. If I may, I would like to elaborate on one point made in my testimony just so there is no misunderstanding, and if I might have permission to expand on what was written in my testimony for the record just so there is no misunderstanding.

Mr. PANETTA. Sure, without objection.

Mr. BODE. We feel that a significantly larger amount of food is available through the commodity purchase and distribution program to the schools that puts more food on the table for America's children. The Department has, based on data collected through the study, projected that is in the $100 million range, a significant amount of money that was not from the study itself but Department analysis based on data collected in the study.

With respect to the legislation that you have referred to already, the Department is appreciative of that legislation and your efforts as well as the efforts of the American School Food Service Association and the National Frozen Food Association and others who have set about to improve the operations of this program. We feel the commodity purchase and distribution program is working better now than it ever has, and it is certainly better than the alternatives that have been discussed, but it certainly can be done even better.

It is with that objective in mind that Secretary Lyng has charged the Deputy Secretary, the agency heads for the three agencies concerned, and the under and assistant secretaries concerned with operation of the program to get together and, as was pointed out to me before the hearing, complete the most extensive review of the system that has occurred in 20-some years to determine how we can make this system work better.

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That work is focusing on issues like delivery and ordering, quality of food, and communications. Communication is very important to this effort.

We appreciate your legislative proposal. We certainly don't have objection to the legislation. We have a few concerns that are mentioned in the testimony, but they are not things that I think warrant discussion now. But we appreciate your efforts and the efforts of others to work with us and improve this system.

I am pleased to be joined today by George Braley from the Food and Nutrition Service, Eddie Kimbrell from the Agricultural Marketing Service, and Bob Sindt from the Agricultural Stabilization and Conservation Service, the three agencies that work with commodity purchase and distribution, so that we might, as fully as possible, respond to your questions.

[The prepared statement of Mr. Bode follows:]

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REVISED COPY

TESTIMONY OF JOHN W. BODE

ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES

U.S. DEPARTMENT OF AGRICULTURE

BEFORE THE

DOMESTIC MARKETING, CONSUMER RELATIONS,

AND NUTRITION SUBCOMMITTEE

HOUSE AGRICULTURE COMMITTEE

March 18, 1987

Mr. Chairman, and members of the Subcommittee, it is a pleasure for me to appear before you today to present the Administration's views concering H.R. 1340 and the commodity program in general. Since the Great Depression, a half century ago, the United States Department of Agriculture (USDA) has been providing food to schools to help them prepare nutritious, low cost meals for the Nation's school children. For all those years, donated foods from USDA have been an essential ingredient in the recipe that has made the National School Lunch Program the outstanding success it is today.

Not only have those commodities helped schools, but their purchase has direct benefit for American farmers as well. Through the commodity program, the Department is able to intervene and purchase food when markets are depressed. This helps the farmer by increasing demand for products in order to prevent further price declines.

The fact that the commodity program has successfully fulfilled its dual objectives of helping schools and farmers for many years makes it a program worth keeping. However, in order to keep it effective, we agree with the

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need to examine the program thoroughly to see if it can be improved, updated or otherwise changed to make it work even better. USDA is committed in its efforts to more efficiently operate this vital program.

Let me speak briefly about a multi-year study in the National School Lunch Program that compared commodities to two alternatives -- cash and letters of credit. The cash system simply replaced USDA food with cash assistance. Under the letter of credit alternative, schools received commodity letters of credit (CLOC's) which were redeemed for certain types of foods.

The study, which was mandated by Congress, began in the 1981-82 school year and ended in the 1984-85 school year. However, Congress has allowed participating cash and CLOC sites to continue their current mode of receiving commodity assistance until June 30, 1987.

Without a doubt, the study was one of the largest pilot projects ever conducted by the Food and Nutrition Service. It was conducted in 96 school districts in 29 States, and it affected 825,000 children -- one of every 50 in the country.

Early last year, the Department published the findings of the study, and I'm happy to say that the results do not support a change from the current commodity distribution system.

Here's what the study concluded briefly:

- Compared to the cash and CLOC alternatives, the present commodity program provides more food to the lunch program. Based on data collected in the CLOC study, we concluded that, under the current distribution program, the market value of the commodities annually donated to schools could be as much as $100 million more than the federal subsidy provided on the alternative systems.*

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- The flexibility of the cash and CLOC systems allowed school districts the opportunity to purchase more processed, ready-to-eat products. Therefore, under the alternative systems, a higher portion of the Federal food dollar was spent on processing with less food expenditures going directly to the farmer.
- Cash and CLOC sites, by purchasing more processed products, decreased the amount of commodities removed from the market, and thus reduced the use of several key commodities such as beef and chicken.

While the study supports the continuation of the commodity program, it did contain a number of suggestions for improvement. The American School Food Service Association took these study findings and, utilizing their own operating experiences, undertook a major review of the commodity program. Working with the National Frozen Food Association, the American School Food Service Association issued a no-holds-barred report on its concerns about the commodity program as it currently operates. The report told us that our customers wanted better quality food, a more reliable delivery and ordering system, and a better communications system. Since receiving this report, the Department has been very seriously addressing each and every recommendation.

Secretary Lyng met with the leadership from the American School Food Service Association so that he could personally hear their concerns. The Secretary has established a task force to get all the parties in the Department together who can make the commodity distribution program even more responsive to the needs of schools and other recipient agencies. That task force is now reviewing all aspects of the USDA commodity program, particularly those areas highlighted by the American School Food Service report.

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The task force is chaired by Deputy Secretary of Agriculture, Peter Myers, and it includes the administrators and deputy administrators of the agencies that have something to do with the commodity distribution program and the assistant or under secretaries for each of these agencies.

The task force has nearly completed its work. We will be reporting back to Secretary Lyng shortly.

Another area of concern expressed by the American School Food Service Association is inconsistent service among State commodity programs. Regardless of how well USDA does its job, local school districts, as well as other outlets, depend on the State distribution system to provide them with good service at a reasonable cost. The American School Food Service Association's comments and our own studies have shown wide variation in quality of service, charges for service and amount of information provided among the States. This is a serious problem and one which the National Association of State Agencies for Food Distribution has agreed to work on with the American School Food Service Association and USDA. This very week, we are hosting a meeting among representatives from the American School Food Service Association, the National Association of State Agencies for Food Distribution and USDA to begin the difficult process of writing standards of practice for State food distribution programs. This is the first time such a meeting has been held and I believe that it is a significant step toward consistent, well run food distribution programs throughout the 50 States and territories.

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Now let me turn to the legislation you are considering, H.R. 1340. In general, the Department does not object to the provisions contained in this bill. We do think that the authority and flexibility provided the Secretary in Section 32 should be maintained so that agricultural objectives can continue to be met successfully. However, we have one concern.

The concern relates to Section 3, which requires a field testing program for product acceptability with participants. USDA currently makes small purchases of new items and field tests them on a limited basis. This system has permitted USDA to introduce new products at a relatively low cost and in an expeditious manner. We are working to make the system better through the task force mentioned above. Implementing the procedures required by this bill would increase costs and delay the introduction of new products. We, therefore, recommend deletion of Section 3.

Thank you for the opportunity to express the Department's views on this important piece of legislation and our related activities in this area. I am greatly encouraged with the interest in commodities shown by the Congress, all parts of USDA, the American School Food Service Association, the State commodity directors and food producers and processors. Working together we are in a position to set the stage for the continued successful operation of the commodity purchase and distribution system into the 1990's and beyond.

* This estimate is obtained by multiplying the two cent per meal differential in the market value of the entitlement commodities reported in the study by the estimated number of meals served (4.9 billion) including lunches, breakfasts, and ala carte sales. This estimate assumes that the study findings can be generalized to the Nation as a whole.

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Mr. PANETTA. Could I hear general comments from each of the agencies that have worked with the program? You have looked at the bill. What is your general reaction to the recommendations that are contained here?

Mr. BRALEY. Mr. Chairman, the Food and Nutrition Service is comfortable with the provisions of the bill. Again, with one or two minor exceptions, that I think, Mr. Bode's official testimony highlights, we feel it is a very workable piece of legislation that will mesh nicely with the efforts we have all undertaken to bring about some improvements in this program so that it will be a viable program for now and well into the future.

Mr. KIMBRELL. Yes, Mr. Chairman. The Agricultural Marketing Service, I think, is very appreciative of the bill. If there is anything that will improve the communication between the user agencies and our agency, we think it would be advantageous. We are very happy to see this bill which will focus on some of the problems in the communications scheme as well as the actual commodities. So, we do appreciate also the bill from that standpoint.

Mr. SINDT. Mr. Chairman, on behalf of the Agricultural Stabilization and Conservation Service, I would just echo the comments of the other panel members. We feel that any improvement in the program is something that we are always striving for. We want to have a program that we feel we should be proud of and is something that the Department can be duly proud of and service the people to the maximum extent possible.

I think in coordination with the efforts of the task force and the provisions of the bill that are called for, we will all be able to move forward constructively.

Mr. BODE. Mr. Chairman, if I may, I know you are very sensitive and knowledgeable of how bureaucracies sometimes work, and Secretary Lyng has made it very clear to all of his agencies at the Department of Agriculture that he intends for this program to work as well as we can possibly make it work. I don't think we have had a time in the operation of the program that I know of, from personal experience or talking with others who have been around it longer, when the programs and the three agencies have worked as well together. Secretary Lyng's statements have made it very clear that such cooperation is expected, and we will be doing that.

Mr. PANETTA. I don't recollect it, either. I am really pleased to see the unity on this issue, because I think it is one that is important to everybody and, for that reason, I really do appreciate the agencies working together in trying to deal with these concerns.

I better go ahead and ask this, because I am sure it is the kind of issue we are going to have to deal with, but in terms of the pilot programs and the whole issue of the commodity distribution program as it presently works versus a commodity letter of credit program, I would be interested in what, in your views, would best serve this particular program in terms of viewing those various alternatives that have been tested.

Mr. BODE. We feel the present commodity program is improved with the improvements that are underway, and I think we will never reach a time when we have improved things so that they are perfect, but this present system is clearly superior, in our view, to the alternatives of cash or letter of credit.

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Cash has none of the specialized benefits to American agriculture that are intended. Of course, the commodity system over the alternatives does put more food on the table. The letter of credit system also is characterized by increased levels of processing. There is also more sodium in the food that is actually served. Finally, the record keeping under a letter of credit system simply would not be such as to assure that its objectives of providing assistance to American agriculture would be there. We have some very real concerns about that.

We think sometimes there is a tendency to compare this reality of our commodity purchase and distribution system with its strengths and also its shortcomings, with the dream of what a nationwide alternative would look like but not recognizing that the alternatives in implementation would likely experience some shortcomings as any idea does.

So, we feel that, clearly, the commodity system is what we should commit ourselves to with its dual objectives and work hard to make it operate as well as possible.

Mr. PANETTA. Good. I appreciate that comment with regard to that aspect.

John, let me just ask you, do you agree with the costs that we have? Are they roughly in the right ball park and are they something that could be absorbed under present appropriations?

Mr. BODE. We don't think there would be major costs associated with the bill.

I should say, too, that we are eagerly pursuing a number of nuts-and-bolts alternatives that might enable us to better operate the program.

Mr. PANETTA. OK. The task force under Peter Myer—is that still on-going?

Mr. BODE. Yes, sir. I participate in that task force. So do each of the gentlemen at the table. We have all been participating in that.

Mr. PANETTA. Thank you all very much. There really isn't a lot of debate here. I think we all share the same goals on this issue. Hopefully, we can work together to try to get this legislation out as soon as we can.

I appreciate all of you taking the time to come up and testify, all of you.

Mr. BODE. Thank you, Mr. Chairman.

Mr. PANETTA. Thank you very much.

The first panel of witnesses includes Thelma Becker, president of the American Food Service Association. She will be accompanied by Ms. Shirley Watkins, director of food services from the Memphis City School District; and Ms. Mary Klatko, supervisor of cafeteria operations in Howard County, Maryland.

We also have Dr. Lewis Smith, president of the National Association of State Agencies of Food Distribution, Fairfax, Virginia; and Mr. Nevin Montgomery, president of the National Frozen Food Association, Washington, DC.

Your prepared statements will be made part of the record and inserted immediately following your oral presentation. You can either read from it or summarize it as you wish.

Mrs. Becker, you may proceed.

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STATEMENT OF THELMA BECKER, PRESIDENT, AMERICAN SCHOOL FOOD SERVICE ASSOCIATION, AND DIRECTOR, FOOD SERVICE, SOUDERTON AREA SCHOOL DISTRICT, PA, ACCOMPANIED BY SHIRLEY WATKINS, DIRECTOR, FOOD SERVICE, MEMPHIS, TN, AND MARY KLATKO, DIRECTOR, FOOD SERVICE, HOWARD COUNTY, MD

Mrs. BECKER. Good afternoon, Mr. Chairman.

My name is Thelma Becker, and I am president of the American School Food Service Association and the director of food service to the Souderton Area School District in Souderton, Pennsylvania. With me this afternoon is Shirley Watkins, the director of food service in Memphis, Tennessee, and the chairman of our ad hoc task force that has been studying the commodity distribution program. Also with me is Mary Klatko, the chairman of the public policy and legislative committee, and the director of food service in Howard County, Maryland.

We are delighted to have this opportunity to testify before you this afternoon and to share with you our thoughts on H.R. 1340, the Agriculture Commodity Distribution Act of 1987.

The American School Food Service Association is a nonprofit association of almost 60,000 members. We are the public employees that administer and staff the Federal child nutrition programs at the State and local level. Approximately 90,000 schools throughout the country participate in the National School Lunch Program serving 24 million children a day.

On behalf of ASFSA, it is my pleasure to express our strong support for, and endorsement of, H.R. 1340. In our opinion, it is an extremely important piece of legislation, as it will help us better serve the nation's children.

Mr. Chairman, I think it is safe to say that the legislation before us today would not be considered a "sexy" bill. It will not greatly expand the size of the Federal feeding programs; it does not seek an appropriation of funds. Nevertheless, our association is giving this legislation the highest possible priority.

The USDA commodity distribution program is badly in need of reform. While ASFSA has a policy position in support of the USDA distribution program, I would be less than candid with you if I did not say that there were members within our association who feel the commodity distribution program is so poorly administered at the Federal and State level that it should be abandoned in favor of an alternate system.

There have been congressional hearings on this program, a 3-year congressionally-mandated USDA pilot study of alternatives to the program, and our association, working with others outside the association, has forwarded to USDA extensive recommendations for improving the program.

At the same time, on May 14, 1986, a number of individuals announced the creation of an Association of Schools for an Alternative to Commodities. A copy of the application form is attached as part of our testimony.

With this background in mind, members of the American School Food Service Association had the opportunity to visit with various officials of the Department to discuss the recommendations that

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were forwarded. One of the observations that we made as a result of these meetings with USDA was that the commodity distribution program did not have the statutory base common to the other food and nutrition programs. Without a proper statutory base, in our opinion, it will be difficult, if not impossible, for the Department to address many of the administrative deficiencies that have been identified, and to assure proper and consistent administration of the program from State to State.

There have been references here today, and in many other forums, to the shortcomings of the commodity distribution program. What specifically are we talking about? What is creating such a fuss?

Simply stated, Mr. Chairman, the commodity distribution program has been run to maximize the agricultural purposes of the program with, at times, almost a complete disregard for the needs of the recipient agencies. Commodities arrive in May that must be stored in cold storage all summer long until school opens in September. Commodities will arrive, sometimes an entire rail car of commodities, on 24 or 48 hours notice, which leaves you without any time to arrange for storage. Commodities will arrive out of condition or simply spoiled, and schools do not know what rights they have to exchange the commodities or how to do so.

Some States charge local school districts an exorbitant amount of money for the intrastate distribution and handling of commodities. Some States do not charge local school districts anything for such services. It is the only Federal program that we are aware of which provides over $1 billion in Federal support yet does not require a State plan of operation, has no Federal performance standards, and generally lets State commodity directors operate with complete autonomy and lack of supervision.

At this time, Mr. Chairman, if you will permit me, I would like to have my colleagues give some descriptive situations that we would like to share with you as our concern of the existing commodity program.

Mr. PANETTA. Sure.

Mrs. BECKER. Mary Klatko.

Ms. KLATKO. Mr. Chairman, at the local level over the last few months, I have asked the question, where's the beef? We were told in the summer that we were going to have enough beef to last us throughout the school year.

We get our allocations three times a year, but the allocations are supposed to come on a scheduled time. When the November schedule was due, I did not receive the beef. I am getting it now. This is March. I will get my second and my third allocation basically together. So, by June, I will not have used that beef, and I will incur a storage charge over the summer to hold it until the beginning of next school year. In the meantime, I had to buy beef to last me through that several months' period of time.

A second example I would like to cite is quality provisions of the food. Children these days are very astute as to the things that they eat, and they will not eat a poor quality food.

A specific example is chicken nuggets. We have been used to purchasing a white meat nugget for the school system. We received whole bird nuggets from USDA, and those nuggets are totally un-

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acceptable to the students. The comment that I hear is, "it looks like grey matter." I can no longer serve them. They are an extruded product. They have been pressed, and the students absolutely refuse to eat on the days we have chicken nuggets unless I serve them a purchased nugget.

So, that particular instance in quality control leaves me wondering if we couldn't tighten up our specs and get into field testing with students. Had we known that the students would not accept these, I am sure we would have bought a different type nugget.

We also have quality control problems in things like cheese that doesn't melt, in canned peas that are so mushy when they go on the steam table they come out like pea soup.

Mr. PANETTA. Did you say cheese that doesn't melt?

Ms. KLATKO. Cheese that doesn't melt. You can't make a grilled cheese sandwich with cheese that doesn't melt.

Mr. PANETTA. You could use it to build a school.

Ms. KLATKO. Hold walls together, anyway.

We received some flour that was tested because it wouldn't rise. It was lacking in gluten. We received spaghetti and macaroni that made a paste. It completely fell apart in the steam kettle. We received canned beef that had sinew, gristle, and fat in it which students find extremely unacceptable.

So, I am saying that, at the local level, we are trying to serve a quality product, and we need the help of someone to make sure that we do have quality products to serve students.

Thank you.

Mr. PANETTA. Thank you very much.

Mrs. BECKER. I would like to continue.

Mr. PANETTA. Sure. Go ahead.

Mrs. BECKER. If this committee and the Congress were to allow the situation to continue, I am afraid that our historical support for the commodity distribution program will simply not be there in the future. We understand that the needs of the recipient agencies must be reconciled with the agricultural purposes of the program. What we object to, Mr. Chairman, is that the agricultural purposes of the program have not been meshed with the needs of the recipient agencies.

For too long, the mindset at the Department has been that beggars cannot be choosy and that the recipient agencies have no right to complain. But school food service directors all over the country are struggling to run nutrition programs as efficiently as possible with less and less Federal resources, and that means that USDA must operate the commodity distribution program in a more dependable and consistent manner.

Before closing, Mr. Chairman, we would like to go on record in favor of two small amendments to H.R. 1340.

Number one, on page 5, line 1, we would suggest striking the words "approval of." Our State directors would rather have USDA set the criteria for intrastate fees, without having to approve the actual rates.

Number two, we have told the Education and Labor Committee that we would support an amendment grandfathering for a period of time the 60 school districts that have participated in the pilot project established by the 1981 appropriations bill. This would

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allow the Secretary to implement the changes in H.R. 1340 before a final decision is made on these districts. We therefore make the same suggestion to this committee.

Mr. Chairman, if appropriate at this time, we would like to commend Secretary Lyng for his personal support and for giving this issue the status and prestige of his good office. One of the challenges we have faced in trying to address the problems mentioned here today is that the responsibility for the commodity distribution program is spread over the entire Department of Agriculture with different officials having a different piece of the pie. ASCS, AMS, and FNS are all key players, but yet they report to different USDA officials. When a complaint about a commodity is received by FNS, it is not always heard at ASCS.

With the Secretary's support, however, and the help of this committee, we are more optimistic than we have ever been in years before about finally improving the USDA commodity distribution program.

Again, Mr. Chairman and members of the committee, we would like to strongly commend you for the introduction of H.R. 1340. It has our strong and unequivocal support. We urge its speedy consideration and approval by this committee and the Congress.

We very much appreciate the opportunity of joining you today, and we would be glad to answer any questions.

[The attachments follow:]

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ASSOCIATION OF SCHOOLS FOR AN ALTERNATIVE TO COMMODITIES

On May 14th, 1986 the Association of Schools for an Alternative to Commodities (ASAC) was formed to pursue the following goals:

SHORT TERM GOAL:

1. To make Commodity Letter of Credit (CLOC) a permanent option for CLOC and Cash sites

LONG TERM GOALS:

1. To make CLOC an option for all districts at the local level
2. To identify those school district employees who are interested in an alternative to commodity donation for school districts
3. To identify those individuals or organizations other than school district employees who are also interested in furthering the goals of the group
4. To provide the means whereby those mentioned in goals 3 and 4 can work together on mutual problems
5. To work toward the refinement of current CLOC program
6. To demonstrate that the CLOC program can meet the goals of the commodity program
7. To help adapt the current CLOC program to enable it to be used effectively on a nationwide scale as an option
8. To work towards being accepted an an ASFSA Committee.

If you are interested in joining, please complete the attached form and send appropriate dues.

Need more information? Please contact Connie Hevly, Shoreline Schools, 206-361-4207 or Terri Anderson, Longview Schools 206-577-2728.

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ASSOCIATION OF SCHOOLS FOR ALTERNATIVES TO COMMODITIES

Application for Active Membership

Name _____ State _____

Position _____

School District _____

Mailing Address _____ HOME ADDRESS: _____

_____ _____

Congressional District Number _____ _____

Time Zone _____

Work Telephone Number () _____

Home Telephone Number () _____

Hours at work _____ AM to _____ PM Best time to call _____

District Information:

District Enrollment _____

Type of Service _____

Average Daily Lunch Participation _____

Percentage of Free _____, Reduced _____, Paid _____

Average Daily Breakfast Participation _____

Percentage of Free _____, Reduced _____, Paid _____

Vendors serving your district:

Name _____ Address _____

Name _____ Address _____

Name _____ Address _____

Remit check to: A. Dolores Barnabei, Treasurer
P. O. Box 1759
Victoria, TX 77902

Dues paid$ 25.00

Date _____

Check # _____

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Mr. PANETTA. Thank you very much.
Ms. Watkins, did you have anything you wanted to add?
Ms. WATKINS. No, thank you, Mr. Chairman.
Mr. PANETTA. Dr. Smith.

STATEMENT OF LOUIS SMITH, PRESIDENT, NATIONAL ASSOCIATION OF STATE AGENCIES FOR FOOD DISTRIBUTION, ACCOMPANIED BY PATRICIA LYNN PHILLIPS, WASHINGTON REPRESENTATIVE

Dr. SMITH. Thank you.

My name is Louis Smith. I am the chief of the Food and Nutrition Bureau of the Iowa Department of Education. Additionally, however, I am presently serving as president of the National Association of State Agencies for Food Distribution which has as its primary constituency those persons responsible for the distribution of donated commodities at the State level.

I would also like to acknowledge the presence of Ms. Patricia Phillips seated behind me and to our left who is our Washington-based liaison.

I know of no local school food preparation program in my State which does not welcome the donated commodities received from the Federal Government for use in the school feeding programs. This does not mean that the commodity distribution program operates without some hitches, that all commodities received are equally desirable, or that there is no concern about product packaging or delivery schedules. There are. However, on balance, I feel our patrons are well satisfied.

In addition, we, as well as many of our colleagues, are located in a food producing region where agriculture is a major part of our economy. I think it safe to say that as long as price support and surplus removal programs exist, the majority of persons from such similarly involved States would support the commodity distribution program for no other reason than it still has to be the best way to serve the agricultural community, governmental agricultural interests, and those of the taxpayer.

School food services are direct beneficiaries of the surplus commodity program as are other programs such as disaster feeding, TEFAP, and NPE. The commodity program can respond quickly and capably to supply surplus food expeditiously and economically to large segments of the American population.

There is great diversification and divided opinion among school food programs. It is certain that the commodity distribution program is not viewed as being universally acceptable to all in the school food service business. Some large city school systems with unique labor problems, complex delivery and storage procedures, and other concerns peculiar to their political and economic settings have quite different problems than small rural systems.

It must be taken into consideration that the small systems often tend not to have their voices heard at decisionmaking levels. Half of the school systems in this country have fewer than 1,000 students enrolled. They operate small kitchens and do a lot of food preparation from scratch using basic and minimally processed food

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stuffs. But of these smaller systems, undoubtedly, some have many of the same concerns as do the larger systems.

However, it remains my feeling that the vast majority of school food programs in this country still support the general concept of commodity distribution. But they do not want to have to deal with the program deficits which have been recently addressed by the American School Food Service Association, among others, and the legislation under consideration speaks to those most pressing concerns.

Additional government controls are not generally sought by local programs, and while there is not uniformity of agreement within the industry, I think the general consensus is that if the greater good will be served which legislation can address, then such legislation should be considered. Such legislation would address discrepancies in program administration from one State to another. This is not to say that all States should operate in a single manner, and flexibility should exist to allow States to best serve their own constituencies in the best possible way based upon local needs and circumstances.

However, when necessary, such legislation will give the USDA authority to require States to do that which should be done but which is not being done or being done improperly.

Beyond just giving the USDA authority, it will also force the USDA to take action which it would not do without a legislative mandate. As an example, if commodity distribution is being carried out in a capricious or haphazard manner, a mandate should be present to require procedures resulting in a fair and proportionate distribution of a product. State agencies can often be precluded from performing certain functions by decisions made beyond the agency. As an example, a State may not be mailing out listings of commodity values because of a local economy measure affecting the number of State agency mailings. Such legislation could mandate such mailings, giving the State no choice if it is to remain in the program.

The executive board of the National Association of State Agencies for Food Distribution has representatives from each USDA region. It has unanimously supported the concept of the commodity distribution program and feels that the program is basically sound but recognizes that shortcomings need to be addressed.

H.R. 1340 attempts to address these shortcomings and, in this regard, the legislation has been supported by the board of the National Association of State Agencies for Food Distribution.

Furthermore, the board of the National Association of State Agencies for Food Distribution recognizes that some State distribution agencies are more effectively operated and respond more positively than do others. In this regard, the National Association board is instigating an outreach program to assist the USDA in providing technical assistance to those local programs needing additional guidance and expertise in performing the distribution function. This is seen as a complement to USDA efforts presently being made in response to the various concerns which have been raised.

The USDA is seen as responding positively. As an example, a task force has been constituted by the USDA and is meeting this

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week to obtain input on standards of excellence regarding the commodity program. I am also here for that event. This is a first step toward the greater cooperation which is needed if the commodity distribution program is to be made more workable.

Much remains to be done internally within the USDA.

As an example, there appears to be insufficient internal coordination between the FNS, ASCS, and AMS. Yet, what each does impacts upon programs of the other. This must be addressed if many of the present problems are to be resolved, but it is quite possible to address such issues if policy level decision can be directed toward them.

The USDA can solve those problems with the help which the legislation provides. Both should be expected to work in tandem to accomplish this end.

Again, the National Association of State Agencies for Food Distribution is supporting this legislation.

Thank you for the opportunity to air my views.

Mr. PANETTA. Thank you very much.

Mr. Montgomery.

STATEMENT OF NEVIN MONTGOMERY, PRESIDENT, NATIONAL FROZEN FOOD ASSOCIATION, ACCOMPANIED BY MICHAEL GUIFFRIDA, WASHINGTON REPRESENTATIVE

Mr. MONTGOMERY. Thank you, Mr. Chairman.

My name is Nevin Montgomery, and I am president of the National Frozen Food Association. With me is Michael Guiffrida, NFFA's Washington representative.

The National Frozen Food Association is pleased to appear before you today and offer our views on legislation pending before you which is designed to make improvements in the USDA donated commodity purchase and distribution program for domestic use.

The National Frozen Food Association is one of the largest food industry trade associations in the nation with over 1,000 company members. Our members include food manufacturers or processors, wholesale distributors, brokers, warehousemen, food service operators or retailers.

Our association has a long history of support for the child nutrition programs administered by the U.S. Department of Agriculture. We also have a long history as a critic of the USDA donated commodity purchase and distribution program for domestic outlets, particularly as it relates to the National School Lunch Program and other child nutrition programs.

Our criticisms of the donated commodity program have been keyed to our finding that the program does not serve its customers effectively, and it also operates inefficiently, setting up a separate distribution system for food outside normal channels of trade.

We are proud of the food processing and distribution system we have developed in the United States. Our system is the envy of the world. We believe the current USDA donated commodity procurement and distribution system largely ignores this system and sets up a separate system to compete with the commercial system which is already in place.

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Over the years, there have been consistent efforts made by industry and donated food recipient agencies to persuade USDA to make improvements in the donated commodity program. There is no question that this program was designed to serve the American farmer at its inception. We have no problem with this objective, but we do have a problem with how this objective is achieved.

We know that all the commodities provided by the USDA to school lunch programs account for only a fraction of 1 percent of farm income. We also know that these commodities have been referred to for years as the cross we must bear by the food industry and by those agencies which receive them from USDA.

We wonder how the donated commodities program can serve the American farmer if it does not adequately serve the customers for these foods. In our business, the customer is first, not second.

The National Frozen Food Association believes that it is appropriate public policy for the Federal Government to support the American farmer. Our quarrel is not with whether it should be done but, rather, how it should be done.

This program has to serve its customers, and it has to serve them not to the extent practicable, but it has to flat out serve them, or it will not achieve the farm support objectives.

Over the years, efforts to change the program have been made over and over again. Starts have been made, but the program has never been brought into the twentieth century.

When USDA has been asked if they had any authority to make the necessary changes, the answers have always been noncommittal. Mr. Chairman, our review of the legislative authority which the Department now has for this program indicates that the Department probably can do whatever needs to be done now.

However, that is not why you are considering this legislation, and that is not why we are here today. This legislation is an attempt to mandate some changes that must be made, more than it is a new authority to the Department. It is in this context that we are appearing today.

As we are sure you are aware, the National Frozen Food Association and the American School Food Service Association have not always seen eye to eye on the donated commodity program or how to change it. However, in February of 1985, our two associations entered a memorandum of understanding in an effort to find common ground.

The results of that understanding were shown in the appointment by the associations of a task force on commodity program alternatives. This task force met three times and, to a lot of folks' surprise, unanimously adopted recommendations for improvements in the donated commodity program. These recommendations were translated into a resolution that was adopted by the boards of directors of both associations. Mr. Chairman, I request that a copy of that joint resolution and the recommendations of the task force be inserted in the record.

Mr. PANETTA. Without objection, that will be made part of the record.

Mr. MONTGOMERY. Thank you.

The National Frozen Food Association did not seek the legislation you have before you, because we noted that one of the recom-

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mendations made by the joint ASFSA task force was that the USDA should seek legislation if the Department felt it was needed to get the job of implementing the recommendations done. To our knowledge, the Department has not as yet sought any legislation.

However, you have H.R. 1340 before you today. This legislation, we understand, was developed by the American School Food Service Association to implement the recommendations of the joint task force between our two associations. We believe that this legislation would authorize, clarify, and encourage USDA to make changes in the program. We do not believe that the legislation has the power to implement the recommendations; only USDA can do that.

Mr. Chairman, NFFA took its position on the legislative effort which is the subject of your hearing today on February 25, 1987. Our position is to support the effort with amendments that would specify what, when, and how USDA is to implement the changes in the commodity program authorized in the legislation.

Mr. Chairman, with your permission, I would like to call on our Washington representative, Mike Guiffrida, just to briefly overview these amendments.

Mr. GUIFFRIDA. Mr. Chairman, you have the detailed amendments. I am going to try to give you the conceptual basis for them. I know the staff is aware of them.

I think the first basic amendment that we would suggest is that wherever it appears in the bill, the words "to the maximum extent practicable" be stricken. Our review of the legislative history of the commodity program indicates that there are specific directives or suggestions that have been contained in legislation in the past, and they have not been implemented for one reason or another.

"To the maximum extent practicable," we think, provides a loophole which apparently neither USDA nor any of the user groups want in forcing the Department to implement these recommendations.

Secondly, the portion of your legislation that deals with the fact that the foods bought by USDA should be of a quality, size, form and packaging more usable to recipient agencies is certainly a step in the right direction. We would like to take that a step further, though, and suggest that USDA cannot buy the commodities in a form and in a packaging and a size that the recipient agencies think is appropriate unless they know what the recipient agencies think are appropriate.

We are suggesting a mechanism through which that would be established, some specific time frames for that to be done, some specific outreach efforts for the Department to take and, also a process to be implemented by the Department, once, again, in a specific time frame—you will hear that refrain a lot—that will assure continuous flow of this information to the Department once it gets started.

There is a provision in the legislation which calls for the commodities purchased to be consistent with dietary guidelines. We would like to add that they also ought to be consistent with the meal pattern guidelines of the Department.

Further, a recommendation of the joint task force between ASFSA and NFFA was that the commodities ought to contain, either on a label or a fact sheet with each commodity, information

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on the amounts of fat, sugar, and salt contained in all the purchased commodities; that is, a nutrient contents statement. That is not a request for nutrition content labeling or percentage labeling, but a request for information to be conveyed to the recipient agencies on these products.

In the legislation, it calls for making commodity specifications available to State agencies. The commodity specifications have always been available to State agencies, but there has not been a requirement that they be disseminated to State agencies and to the recipient agencies. One of our amendments would go in that direction.

With regard to field testing and a national testing program, we couldn't agree more with that provision of the bill, but we would suggest that it be strengthened to make it clearly a field testing program so that the testing that goes on does not go on in the basement of the South Building by USDA staffers but includes that as well as tests in the field with actual people who would use the commodities to be purchased. Once again, there is a specific time frame suggested with this.

We also are suggesting an amendment which would require that the Department provide the recipient agencies without charge or credit—that means as a bonus item—all commodity purchases which do not contribute to the meal pattern guidelines established by the Secretary. What that means is if for the 12 or 13 cents in what they call the entitlement commodities that the Department provides to the recipient agencies, the Department would not be able to buy and distribute under that 13 cents any commodity item that did not contribute to the meal pattern. It doesn't mean that they couldn't buy it; they could buy it as a bonus item.

Finally, we have also suggested some fairly specific amendments with regard to forecasting of commodities available, with regard to ordering of so-called group B commodities, and those specific time tables are suggested, Mr. Chairman, in view of the legislative history surrounding forecasting and time tables which say you ought to do this but never mandated it shall be done in this time frame.

A subject near and dear to our hearts which relates to what Mr. Montgomery was saying about dual distribution systems is the provision of the bill which relates to intrastate charges and warehousing and delivery. We would suggest that the committee consider being very specific and talk about some interim regulatory process requiring USDA to require the State agencies to evaluate intrastate donated commodity delivery systems and implement the most cost efficient system for commodity warehousing and delivery within their States within 90 days of when the interim regulation comes out.

We would suggest, further, that these regulations provide a directive from USDA to the States that normal channels of trade ought to be used except in extraordinarily extenuating circumstances. In other words, we are suggesting let's not reinvent the wheel unless we have to.

Secondly, we are suggesting that the Department come out with guidelines for the State agencies on establishing fees where fees are charged for warehousing and delivery of commodities. We are not suggesting establishing those fees but guidelines for them.

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As far as out-of-condition commodities are concerned, the Secretary certainly ought to monitor those, and he certainly ought to tell people how to replace them when they are bad.

On the last page of your bill regarding the section dealing with monitoring of the inventories, we would suggest that "designated for donation" come out, that "to the maximum extent practicable" come out, and the word "reasonably" come out.

It is our feeling that the Secretary ought to know what the condition is of the commodities that are in storage, and whether they are in a storage facility controlled by the Department or under lease to the Department. Since there really is no knowledge of which commodities are going to be distributed until a certain point in time, the term "designated for donation" doesn't mean anything in terms of the inventory. We also feel that the commodities which are to be distributed ought not just to be "reasonably" acceptable; they ought to be acceptable.

We have a couple of other amendments that I would now like Mr. Montgomery to discuss. I thank you for your time.

Mr. MONTGOMERY. There is an additional amendment we feel strongly about. We believe that there must be what we call a "CLOC trigger" in the legislation. This CLOC provision would require that the Secretary offer to all recipient agencies, 1 year from the date of the enactment of the legislation, the opportunity of selecting a workable commodity letter of credit option.

Our feeling is that if the Secretary and the State agencies do their jobs and make the changes indicated in the legislation within the time frames specified, few agencies will take the option. If the Department does not make the improvements mandatory, recipient agencies will choose the CLOC option. We believe this option should be for all entitlement commodities and not cover bonus commodities which are the commodities the Department has in storage.

It is our judgment that the CLOC option preserves the Secretary's ability to identify and remove surplus agricultural commodities from the market. CLOC does provide local decisionmakers with the flexibility of buying locally the commodity item on a timely basis, but in a form that is readily usable in their operations.

Mr. Chairman, there is one more amendment which we would like to suggest to the committee. First, the Agriculture Committee has been most interested in the national commodity processing program of the USDA. This is the program through which the USDA and processors enter contracts to have the processors use bonus USDA commodities to produce products for eligible recipient agencies and then sell those products to these agencies at reduced prices, thereby reflecting the value of the USDA commodity in the finished product.

The authority for this program expires June 30, 1987. We believe this program has finally started to work since it has been in effect for a number of years. Its attraction is one contract per processor that they can sell in 50 States rather than 50 separate State contracts with different reporting and record keeping requirements.

USDA has announced its plans to continue the program on its own for the 1987-88 school year. We suggest to the committee that

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the legislative extension of at least 3 years will allow the USDA, processors, and recipient agencies to do some real planning rather than the start and stop effort which has characterized this program in the past.

Mr. Chairman, we appreciate the opportunity of appearing before the subcommittee today and we thank you.

[The prepared statement of Mr. Montgomery follows:]

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Testimony of the National Frozen Food Association, Inc.

to: The House of Representatives Committee on Agriculture
Subcommittee on Domestic Marketing

March 18,1987

Presented by: Nevin Montgomery, President
Accompanied by: Michael Giuffrida, Washington Representative

Mr. Chairman and Members of the Subcommittee, the National Frozen Food Association is pleased to appear before you today and offer our views on legislation pending before you which is designed to make improvements in the USDA Donated Commodity Purchase and Distribution Program for domestic use.

The National Frozen Food Association is one of the largest food industry trade associations in the nation with 1,000 company members within the continental United States. Our members are either food manufacturers or processors, wholesale distributors, brokers, warehousemen, food service operators or retailers.

Our Association has a long history of support for the Child Nutrition Programs administered by the United States Department of Agriculture. We also have a long history as a critic of the USDA Donated Commodity Purchase and Distribution Program for domestic outlets, particularly as it relates to the National School Lunch Program and the other Child Nutrition Programs.

Our criticisms of the donated commodity program have been keyed to our finding that the program does not serve its customers effectively and it also operates inefficiently setting up a separate distribution system for food outside normal channels of trade. We are proud of the food processing and distribution system we have developed in the United States. Our

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system is the envy of the world. We believe the current USDA donated commodity procurement and distribution system largely ignores this system and sets up a separate system to compete with the commercial system already in place.

Over the years, there have been consistent efforts made by industry and donated food recipient agencies to persuade the USDA to make improvements in the donated commodity program. There is no question that this program was designed to serve the American farmer at its inception. We have no problem with that objective, but we do have a problem with how this objective is achieved.

We know that all the commodities provided by the USDA to school lunch programs account for only a fraction of one percent of farm income. We also know that these commodities have been referred to for years as "this cross we must bear" by the food industry and by those agencies who receive them from USDA.

We wonder how the donated commodities program can serve the American farmer if it does not adequately serve the customers for these foods. In our business, the customer is first..not second. The National Frozen Food Association believes that it is an appropriate public policy for the Federal Government to support the American farmer. Our quarrel is not with whether it should be done, but rather how it is done. This program has to serve its customers and it has to serve them not "to the extent practicable"...it just flat has to serve them or it will not achieve its farm support objectives.

Over the years, efforts to change the program have been made over and over again. Starts have been made, but the program has

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never been brought into the 20th century. When USDA has been asked if they had the authority to make the necessary changes, the answers have always been non-committal. Frankly, Mr. Chairman our review of the legislative authority which the Department now has for this program indicates that the Department probably can do whatever needs to be done now.

However, that is not why you are considering this legislation and that is not why we are here today. This legislation is an attempt to mandate some changes that must be made, more than it is a new authority to the Department. It is in this context that we are appearing today.

As we are sure you are aware, the National Frozen Food Association and the American School Food Service Association have always not seen eye-to-eye on the donated commodity program or how to change it. In February of 1985, our two Association's entered a Memorandum of Understanding in an effort to find a common ground.

The results of that understanding were shown in the appointment by the Associations of a Task Force on Commodity Program Alternatives. This task force met three times, and to a lot of folks' surprise, unanimously adopted recommendations for improvements in the donated commodity program. These recommendations were translated into a resolution that was adopted by the Boards of Directors of both Associations. Mr. Chairman, I request that a copy of that joint resolution and the recommendations of the task force be inserted in the record.

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The genesis of the two Associations' joint resolution was a basic bargain. The American School Food Service Association wanted improvements made in the donated commodity program and they were increasingly frustrated by what they saw as a lack of action. The National Frozen Food Association also wanted improvements in the program. If they did not make the necessary improvements, NFFA felt that the time had come for an option. That option, we believe, is the so-called Commodity Letter of Credit alternative.

Mr. Chairman, you and the members of this Subcommittee can read the joint resolution and the twenty-eight action items detailed for the USDA. We would call your particular attention to page three of the joint resolution which says:

> We shall for the time being support a continuation of the USDA Commodity Distribution Program. To eliminate further eroding of this support, a concerted effort must be made to correct deficiencies and seek improvements of the current commodity distribution program, as recommended in Exhibit C, within a 16 month period to begin immediately. If at the end of this period, USDA has not implemented these recommendations satisfactorily, legislation should be introduced to offer a workable commodity/CLOC option to all states.

Mr. Chairman, the National Frozen Food Association believes that the deadline of June 30, 1987 is a very real one. We are holding USDA to that deadline and we are holding the American School Food Service Association to the deadline as well. In our view, the word "implement" means what Mr. Webster says it does. He defined implement as:

> To carry out, to give practical effect to and ensure of actual fulfillment by concrete measures.

The joint resolution goes on to say the following:

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We shall transmit to USDA those changes listed in Exhibit C that are necessary to sustain our continued support of the commodity distribution program.

The National Frozen Food Association believes that the resolution is clear as to what the joint Associations wanted done, when we wanted it done by, and what our positions would be if the recommendations were not implemented.

The National Frozen Food Association did not seek the legislation you have before you because we noted that one of the recommendations made by the joint ASFSA task force was that USDA should seek legislation if the Department felt it was needed to get the job of implementing the recommendations done. To our knowledge, the Department has not as yet sought any legislation.

But, you have H.R. 1340 before you today. This legislation, we understand, was developed by the American School Food Service Association to implement the recommendations of the joint task force between our two associations. We believe that this legislation would authorize, clarify and encourage USDA to make changes in the program. We do not believe the legislation has the power to implement the recommendations....only USDA can do that.

Mr. Chairman NFFA took its position on the legislative effort which is the subject of your hearing today on February 25, 1987. Our position is to support the effort with amendments that would specify what, when and how USDA is to implement the changes in the commodity program authorized in the legislation.

The first amendment we would suggest occurs on page two of H.R. 1340 on line 7 where we suggest striking the words, " to the degree to which this distribution" and inserting instead the

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words, "and to assure that this acquisition and distribution of commodities."

Amendment number two we would suggest is removal of the words "to the maximum extent practicable" where ever they appear. We believe these words are inconsistent with the recommendations of the joint task force.

The objective of H.R. 1340 that commodities should be bought in quality, size and form most usable to recipient agencies is appropriate. However, the National Frozen Food Association believes that this needs to be strengthened by adding the following requirements:

> Develop and conduct within ninety (90) days of enactment a detailed survey of recipient agencies to determine preferred commodity quality, packaging, and form of purchases and report those results to the Congress.
>
> Make changes in the next bidding cycle as indicated by the survey and current industry technology and capacity to assure consistent quality of commodity products.
>
> Within one hundred and twenty (120) days of enactment, develop, implement and disseminate to industry and recipient agencies changes in commodity product specifications to provide optional forms and packaging with particular emphasis on dairy products and canned products purchased.
>
> Develop and implement within ninety (90) days of enactment a process to obtain a continuous flow of information from the states and recipient agencies on commodity product acceptability and preference.

The provision in the legislation that calls for the commodities purchased and distributed to be consistent with the dietary guidelines needs to be strengthened as well. We believe that the bill should be amended to provide as follows:

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After the word "Services" insert "and consistent with the meal pattern guidelines published by the Department."

Provide nutrient content information which includes the identification of the amounts of fat, sugar, and salt contained in all purchased commodities, raw and processed, on all purchased commodity product labels and fact sheets.

On page 3 B strike the words,"make available" and insert the words," Disseminate at least twice annually". After (A) in the same paragraph insert "to recipient agencies and."

On page 3 line 16 strike the words,"develop and implement an on going testing," and insert the words," develop and implement a National Commodity Field Testing Program within ninety(90) days of enactment." On page 3 line 22, delete the word "and form" and insert, "form and packaging."

On page 4 line 5, after the word "Americans", insert the following, "and the Department's meal pattern guidelines." At the end of line 7 insert the following:

Provide to recipient agencies without charge or credit all commodity purchases which do not contribute to the meal pattern guidelines established by the Secretary.

On page 4 after the end of line 11, insert the following," and provided further that the Secretary shall establish a lead time of less than ninety(90) days for ordering group B commodities and make such system effective within sixty (60) days of enactment; and provided further that within sixty (60) days of enactment the Secretary shall develop and put in place a forecasting system through which state agencies and recipient agencies will receive at least sixty(60) days advance notice of the kinds and quantities of items to be purchased and distributed

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and a report to the Congress annually on the adherence of the Secretary to this provision."

On page 4, we suggest that (G) be deleted and instead the following provision be inserted:

> Develop and implement within ninety (90) days of enactment an interim regulatory process by which state agencies will be required to evaluate intrastate donated commodity delivery systems and implement the most cost-efficient system for commodity warehousing and delivery within ninety (90) days of publication of the interim regulation. And further said interim regulation shall require that normal channels of trade be used in the warehousing and delivery of donated commodities unless a state can submit specific financial justification for an alternative approach and such alternative is approved as cost-effective by the Secretary. And provided further, that the Secretary shall also establish as a part of this interim regulation guidelines for state agencies in establishing equitable pricing for such intrastate services relating to donated commodity warehousing and distribution and assure adherence to said guidelines. Said guidelines shall take into account national standards and industry charges for similar services.

On page 5 we believe that there should a specific time line for the Secretary in developing and implementing a policy relating to out-of-condition commodities. The same applies to the charge to the Secretary to monitor the condition of commodities in storage. It is suggested that present industry standards be adopted and published and adhered to.

On page 6 (B), we suggest on line 2 the words "designated for donation" be eliminated. Also, on line 4 eliminate "to the maximum extent practicable," and also, the word "reasonably."

On page 6, we suggest in line 11, the words "where appropriate" be deleted.

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There is one additional amendment we feel strongly about. We believe that there must be what we call a "CLOC Trigger" in the legislation. This CLOC provision would require that the Secretary offer to all recipient agencies one year from the date of enactment of the legislation the opportunity of selecting a workable commodity letter of credit option. Our feeling is that, if the Secretary and the state agencies do their jobs and make the changes indicated in the legislation within the time frames specified few agencies will take the option. If the Department does not make the improvements mandated, recipient agencies will choose the CLOC option. We believe this option should be for all entitlement commodities and not cover bonus commodities which are the commodities which the Department has in storage.

It is our judgement that the CLOC option preserves the Secretary's ability to identify and remove surplus agricultural commodities from the market. CLOC does provide local decision makers with the flexibility of buying locally the commodity item on a timely basis, but in a form that is readily usable in their programs.

There are additional amendments we are developing and we will be pleased to communicate those to you in the next week or so.

Mr. Chairman, we appreciate the opportunity of appearing before the Subcommittee today. We will be happy to try and respond to any questions you might have at the appropriate time.

(Attachments follow:)

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JOINT RESOLUTION
OF
THE AMERICAN SCHOOL FOOD SERVICE ASSOCIATION
AND
THE NATIONAL FROZEN FOOD ASSOCIATION

WHEREAS, the United States Department of Agriculture (USDA) commodity distribution program is an important part of the federal support for the National School Lunch Program;

WHEREAS, commodity processing is an indispensable element of the commodity program and allows schools throughout the country to derive the full benefits of the commodity distribution program;

WHEREAS, legislation was introduced in the Congress in 1980 to replace the commodity distribution program with a commodity letter of credit (CLOC) program;

WHEREAS, USDA has conducted an evaluation of alternatives to the commodity donation program;

WHEREAS, the Administration proposed, as part of its 1986 budget, child nutrition amendments that, if enacted, would have resulted in at least 5 to 6 million children and 8,000 - 10,000 schools being forced from the National School Lunch Program;

WHEREAS, it is reasonable to assume that all federal programs, including the National School Lunch Program, shall continue to face a severe challenge to its federal support until such time as the federal deficit is in balance or significantly reduced;

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WHEREAS, it is agreed that it would be best, during the current budget crisis, to provide a strong broad political coalition that supports the National School Lunch Program;

WHEREAS, the parties hereto executed a Memorandum of Understanding on July 25, 1985 (attached as Exhibit A) committing each organization to (a) jointly oppose any additional reductions in federal financial support for the National School Lunch Program, and (b) fully discuss options to the USDA commodity distribution program;

WHEREAS, Congressman Bill Ford wrote to the parties hereto commending the Memorandum of Understanding (attached as Exhibit B);

WHEREAS, these discussions have been fruitful and informative;

WHEREAS, the CLOC system has been shown to have many positive features;

WHEREAS, numerous steps have been identified that, if implemented by USDA and the states, could improve the commodity distribution program (attached as Exhibit C);

WHEREAS, the Department of Agriculture has informed us that they are about to commence a further study of the commodity distribution program in all fifty states;

IT IS HEREBY RESOLVED BY THE JOINT AMERICAN SCHOOL FOOD SERVICE ASSOCIATION/NATIONAL FROZEN FOOD ASSOCIATION AD HOC COMMODITY PROGRAM STUDY GROUP, AS FOLLOWS:

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1. We shall continue to work together in opposition to any further reductions in federal support for the National School Lunch Program.

2. We shall, for the time being, support a continuation of the USDA commodity distribution program. To eliminate further eroding of this support, a concerted effort must be made to correct the deficiencies and seek improvements of the current commodity distribution program, as recommended in Exhibit C, within a 16 month period to begin immediately. If at the end of this period, USDA has not implemented these recommendations satisfactorily, legislation should be introduced to offer a workable CLOC/commodity option to all states.

3. We shall transmit to USDA those changes listed in Exhibit C that are necessary to sustain our continued support of the commodity distribution program.

4. It is agreed that an expanded CLOC program with a state option would address many of the disadvantages (see Exhibit D) of the present commodity program and be a viable alternative.

5. It is recommended that the current CLOC program for pilot sites be extended for the period January 1, 1986 - June 30, 1987. This should be a refinement and fine tuning period for both programs. Current cash pilot sites should be given the option of CLOC or commodity program, only.

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Approved by:

American School Food Service Association — Date

William P. Boone — JAN 16, 1986

National Frozen Food Association — Date

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RECOMMENDATIONS AND ACTION ITEMS FOR COMMODITY DISTRIBUTION PROGRAM

Prepared by American School Food Service Association and National Frozen Food Association for U.S. Department of Agriculture

A. IMPROVE QUALITY OF FOOD

1. Recommendation:

Develop specifications which will assure products of the quality and in the form most useable to the local school food authorities taking into consideration the most commonly available comercial forms, sizes and regional preference in which purchased food is obtained.

Action:

a) Develop a process to obtain a continuous flow of current information from the states on commodity acceptability and preference.

b) Write specifications to provide to schools whenever possible, optional package sizes and forms.

c) Make changes in specifications at next bidding cycle as indicated by school users and industry technology.

d) Disseminate current information regarding product specifications to local schools, state agencies and regional offices.

2. Recommendation:

Develop tighter and more stringent specifications to be utilized by United States Department of Agriculture when purchasing processed items. Develop purchasing and processing policies more consistent with the dietary guidelines and meal pattern requirements.

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Actions:

a). Provide nutrient content information which includes the identification of the amounts of fat, sugar and salt contained in all commodities, raw and processed.

b) Revise product specifications, especially those for processed commodities, to comply with dietary guideline recommendations for lower sugar, salt and fat.

c) Provide local schools with processed food specifications for purpose of monitoring quality and assisting with menu planning;

d) Provide local schools with information regarding suggested use of commodities.

3. Recommendations:

Develop a system to field test commodities with children at state and local levels, on an on-going basis, prior to making a large purchase. (We get a large quantity only to find that the item is not acceptable by children.)

Actions:

a) Develop criteria and guidelines for field testing the acceptability of processed commodities with children.

b) Implement an on-going national field testing program.

4. Recommendations:

Develop measures to improve processed foods:

- Specification writing by United States Department of Agriculture for processed foods can be improved with industry input.
- Recourse by states to United States Department of Agriculture if product is out of condition and/or not acceptable.

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- Enforcement of standards by state agencies with vendors: Suggest panel of school food authorities be used to check for quality control before distribution to school food authorities.

Actions

a) Implement a procedure for obtaining input from industry representatives and school food service personnel regarding product specifications; NO

b) Disseminate information to local schools regarding their recourse for handling spoiled or otherwise unacceptable products. OK

c) Communicate product standards for all federally processed foods to local schools and state agencies. OK

d) Require states which do their own processing to field test products with students prior to purchase and to develop a system for monitoring product acceptability. NO

B. DELIVERY AND ORDERING

1. Recommendations

Develop and implement more reliable delivery schedules timed to the school year needs. Ship government commodities in large quantities at the beginning of the school year rather than at the end to eliminate storage problems and expense of storage over the summer. NO

Actions

a) Schedule deliveries for perishables and frozen food from August to March. NO

b) Avoid deliveries during major holidays (Thanksgiving, Christmas, Easter). NO

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2. Recommendations:

The United States Department of Agriculture should require state agencies to evaluate delivery systems to schools and subsequently require state agencies to implement the most efficient and cost effective delivery system for local school food service authorities.

Actions:

a) Develop a process, regulatory or otherwise, by which state agencies will be required to evaluate delivery systems and implement the most efficient, cost-effective system.

3. Recommendations:

Establish a value (charge to local schools) that the state distribution agencies should use in allocating commodities to the local school food authorities. (Suggested FOB + Freight to state warehouse.)

Actions:

a) Develop an equitable pricing formula to be used by state agencies in setting charges to schools for service, handling and delivery of commodities.

4. Recommendations:

Develop a shorter lead time for ordering Group B foods. Presently, 90 days in advance are required to have food requisitions in the regional office. (This is a hardship on states)

Actions:

a) Establish a lead time of less than 90 days for ordering Group B commodities and use this lead time consistently in all regional offices and state agencies.

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5. Recommendations

Develop a faster turnover of commodities at the federal level.

Actoin:

a) Develop a system to monitor age and condition of bonus commodity inventories to asure that quality of commodities is acceptable for use in school food service operations.

6. Recommendations

Establish longer periods and more accurate forecasting of commodities in order that local purchases can be adjusted accordingly.

Actions

a) Implement a forecasting system whereby local schools and state agencies receive at least 60 days advance notice regarding the kind and quantities of items to be distributed.

C. ADMINISTRATION

1. Recommendations

Develope regualtions for state agencies to observe in order to administer the entire food distribution program consistency among and between states is necessary. If Congressional legislation is needed, write and introduce. Publish minimum service requirements for state distribution agencies to include:

- Establish maximum charges to local schools.
- Power to enforce recommendation.

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Action:

a) Establish consistent state agency performance standards, targeted to provide uniform, high quality service to schools in all states. OIC

b) Develop an equitable pricing formula to be used by state agencies in setting charges to schools for service, handling and delivery of commodities. MO

c) Introduce legislation (if necessary) to give USDA regulatory and enforcement authority. MO

2. Recommendations:

Whenever policies are revised or new regulations developed involving the Food Distribution Program, states and others affected during developmental stages should have input. (Those at the federal level developing regulation and policies, many times do not know the hardship caused at the state or local level.)

Action:

a) Establish an Advisory Council for the Commodity Distribution Program separate from the existing Child Nutrition Advisory Council, which includes representatives from industry and school food service. NO

b) Provide on-going opportunities by which this Council may provide in put for regulation and policy development (See action item D-2-a+b) NO

3. Recommendations:

Develop specific procedures for allocating food (entitlement) to the local level.

Action:

a) Develop consistent formulas to be used by regional offices and state agencies for allocating entitlement commodites to schools. NO

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4. Recommendation:

Introduce legislation to provide State Administrative Expense funds (SAE) based on the formual to include the value of the food distibuted in the State Administrative Expense formula formual in order that funds would be available to administer the program.

Action:

a) Provide SAE funds to adequately administer the Commodity Distribution Program in Sate Agencies. Introduce legislation for this purpose if necessary.

NO

D. COMMUNICATIONS

1. Recommendation :

Develop a system of communications from United States Department of Agriculture, Division level to all Regional Offices. Frequently, states in other regions do not receive the same information from their respective regional office.

Action:

a) Implement a plan for assuring that regional offices interpret polices and regulations in a uniform and consistent way.

DIC

2. Recommendation:

Establish a communication newtwork with representatives from American School Food Service Association, Food and Nutrition Services, industry, State Commodity Directors and Commodity Credit Corporation in quarterly meeting. Define specfic areas for improvement in program with developed time lines for completion. Quarterly meeting are recommended. This would ultimately effectuate desired changes and establish open communication between all identities.

NO

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Actions

a) Establish an Advisory Council for the Commodity Distrubtion Program, separate from the existing Child Nutrition Advisory Council, which will include representatives from agencies and organizations listed above.

b) Provide on-going opportunities for this Council to work with USDA or program improvement.

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Mr. PANETTA. Thank you very much.

That shows you what kind of amendments can be produced if you hire an Italian lawyer.

Mr. Matz, did you want to add anything to the testimony?

Mr. MATZ. No, sir.

Mr. PANETTA. Well, thank you, all of you, for your testimony, and the suggestions regarding the amendments are good suggestions in most instances, and I look forward to trying to work with your group to try to develop an approach that meets your concerns.

Obviously, I guess the one provision that is the most controversial is the CLOC provision, only because of the studies that are currently going on and the general reactions about concerns for a broad letter of credit. As to whether people would then be purchasing goods that are not produced in the country and might go abroad, et cetera, there are a lot of concerns that have been raised about that.

That is probably the one recommendation that you have made that we would have to take a very close look at.

I can understand your concern about needing to put some leverage on the Secretary. I think what you are trying to make clear to the Secretary is if these reforms that are contained in the legislation are not implemented, you want to be able to have a vehicle that says we are not just going to continue to say please but have authority to force the issue. Maybe there is a way to do it that might be acceptable to all sides, and I am certainly prepared to work at that.

Let me just ask you those of you who are currently involved with the program. Ms. Klatko, you seem to have been involved with the products themselves quite a bit—is it just a totally haphazard process when the commodities come in?

Ms. KLATKO. No, sir. That is not the case. It is specific instances when things do not happen. When we do get notification that we will be getting something, the majority of times the products arrive. Sometimes, they do not. The discrepancy is what causes the problem.

Mr. PANETTA. You normally contract in advance for the goods that are coming to you?

Ms. KLATKO. We are allowed to order.

Mr. PANETTA. You order?

Ms. KLATKO. We are allowed to order through our State agency, and when we order a specific product, they give us scheduled shipping dates. The shipping dates are tentative. What we actually need are delivery dates. We need to know when the product is going to arrive on our dock so we can use it to avoid purchasing or to avoid alternative menu planning.

Mr. PANETTA. Regarding the beef example you gave, I take it they gave you a shipping date that was early this year?

Ms. KLATKO. Normally, our beef is divided into three shipments, and we should have had it August, November, and March. The November one did not show up, and that was in the shipping period.

Mr. PANETTA. At all?

Ms. KLATKO. It is showing up now. It is showing up in the beginning of March. So, the second and third deliveries are coming together.

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Mr. PANETTA. I see. So, what you are doing is you are getting the bulk of the delivery taking place in these next few months. You are going to wind up this summer with a lot of beef on your hands.

Ms. KLATKO. Exactly.

Mr. PANETTA. I see. When the beef is delivered to you, is it canned? How is it packaged?

Ms. KLATKO. Several forms. We get bulk beef at 55 pounds per case. We get canned beef in 29.5 ounce cans, and we get beef patties which may contain an extender which is a vegetable protein product or just plain 100 percent beef. So, it is in a variety of forms, and you can order them. There have been improvements. That is definitely an improvement that you can order the specific type of beef that you want.

Mr. PANETTA. Do you have your own recipes for how you serve the food?

Ms. KLATKO. Yes, we do. We have our recipes that we have developed, and we also have USDA recipes. The USDA recipes are currently being revised, and our recipes sometimes have to be a very fast test kitchen-type operation because we do not receive the recipes for something like fig nuggets that would be coming in. The recipes from USDA are far behind the product. They need to come simultaneously.

Mr. PANETTA. On the nuggets that you talked about, are you saying that those are poor quality chicken nuggets?

Ms. KLATKO. The chicken nuggets are very poor quality.

Mr. PANETTA. Who prepares the nuggets? Is that something that is done in contract with the USDA? Do you know?

Ms. KLATKO. It is a processed product that USDA sends to us ready to take from the carton and put in the oven. We do not do anything except heat them.

Mr. PANETTA. I see, and it is just bad quality.

Ms. KLATKO. Yes.

Mr. PANETTA. How much of the goods that you receive are spoiled? Are you aware of the receipt of any spoiled goods?

Ms. KLATKO. Isolated instances. Damaged number 10 cans that have a leak or a bulge—that could have happened anywhere along the way. Some fresh products like apples where a few have deteriorated in the case. Basically, not a lot in my personal experience, but I have heard from other folks throughout the nation that there have been instances where things have spoiled. They have gotten termites in flour or they have gotten weevils in flour or infestation in other types of products.

Mr. PANETTA. How much do you rely on the commodity goods?

Ms. KLATKO. Very much so in my program.

Mr. PANETTA. Is that right?

Ms. KLATKO. Very much so. That is 20 percent of our products that we are serving in the school. It represents about 20 percent of our purchasing power.

Mr. PANETTA. 20 percent?

Ms. KLATKO. Yes. The other 80 percent is actually purchased food.

Mr. PANETTA. That is a pretty good number.

Ms. KLATKO. It certainly is.

Mr. EMERSON. Will the chairman yield?

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Mr. PANETTA. Sure, I would be pleased to yield.

Mr. EMERSON. Ms. Klatko, there is good news for you. In the audience is a member of our next panel, Mr. Richard Douglas, who represents the fig industry, among other groups. He has just sent me a signal that he is going to see to it that you have more fig recipes than you know what to do with.

Ms. KLATKO. Wonderful. Thank you.

Mr. PANETTA. Ms. Watkins, did you want to say something?

Ms. WATKINS. I think Ms. Klatko covered the issues very well. While there are problems with the commodity distribution program, we have to let you know that there have been some improvements, and we are continuously seeing improvements in the program. However, as Ms. Klatko said, we do have problems throughout the country, not only with quality, but we have problems with communication which seems to be a major concern for many people.

Mr. Guiffrida mentioned the fact that State agencies have access to specifications and they are not passed down. We are finding, in some instances, State agencies don't have access to the specifications. When you are talking about ensuring quality all along the way, having the specifications so that you can ensure that you do have the appropriate quality product is very, very important.

There have been improvements made, and we are just saying that a lot more improvements need to be made in the program.

Mr. PANETTA. What is the process in your States? Does a State rep come down, or do you order through a State representative? What is the process for ordering commodity goods?

Ms. WATKINS. The process for ordering commodities, in most situations, State distribution agency directors provide a list of group B commodities, group A commodities, and you are able to select what you want. You are given your entitlement. In some States, they give you your entitlement so you know what you have to order, if it is flour, if it is butter—which is a bonus—if it is oil. You know exactly what your needs are, and some school districts have very sophisticated computer programs which provide them and they have access to information which lets them know how much they are using on a monthly basis. Some States allow you the opportunity to request those food items on a monthly basis.

Some of the systems around the country are very sophisticated in both local, State, and regional agencies.

Mr. PANETTA. Thank you very much for your testimony.

I have a big chunk of the frozen food industry in my district, as a matter of fact, in Watsonville, California, and I would just urge you to please stay in the country if you can. Will you do that for me?

Mr. MONTGOMERY. Yes, we will.

Mr. PANETTA. Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

I concur in your remarks. I apologize for having been tardy at the commencement of this hearing today. I have been trying to juggle three different hearings. I have representatives of a couple of different commodity groups from my district appearing before the other hearings and thought I should be there while they were giving their testimony. So, I do apologize. I have been here

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throughout most of this panel's testimony and the questions and answers. I appreciate what you have had to say.

I do have a statement that I would like to submit for the record, with unanimous consent, following your remarks, Mr. Chairman.

Mr. PANETTA. Without objection.

Mr. EMERSON. Permit me to say that I am an enthusiastic cosponsor of this bill which is aimed at improving the administration of the Department of Agriculture commodity donation program. I look forward to working with all of you in seeing its effective implementation.

Thank you.

Mr. PANETTA. Let me just ask the representatives of the frozen food industry; do the recommendations that you have included reflect the recommendations that you made almost a year ago regarding changes in the program? Are these fairly consistent with what you had?

Mr. MONTGOMERY. I would say yes. They would be consistent with those recommendations.

Mr. PANETTA. Ms. Watkins.

Ms. WATKINS. Mr. Chairman, I would have to say that some of the recommendations are not necessarily consistent. The reference made to CLOC local option certainly is not consistent with the recommendations of the ad hoc committee.

Our recommendation was for, if at the end of July 1, 1987, the Department had perhaps not made significant improvements and what we felt were significant improvements in the program, the option at that time was a State option.

I am appalled now that the frozen food association has changed their position. We never mentioned local option. What you do have there with a local option is rather than 50 States having an option, you are now talking about some 25,000 people having an option. To me, that has to be an horrendous task administratively. I would have some real reservations about that. That certainly is not consistent with the committee.

Mr. PANETTA. Well, I appreciate your comments, and I am aware of the concerns about that provision. That is why I raised that issue.

However, I think we have gotten such good cooperation on this legislation to this point, I think we are going to be able to work our way through it. Let's all work together, and we will manage to find a way to meet some of the concerns. Many of the amendments you have suggested make some sense in tightening it up. You don't want to leave too many doors open.

I agree with putting pressure on the Department to meet the standards, but we are going to have to do it in a way that doesn't open the door so that we hurt ourselves in the same process. I think that is possible, and I am optimistic that we can get it done.

I want to thank all of you for your testimony. It has been very helpful. Again, we look forward to moving this legislation as quickly as we can.

Mr. EMERSON. Mr. Chairman, if I may say, I particularly want to compliment the American School Food Service Association for their fine consultation in working with us and helping to address

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some of the nuances of the issues that we face here. We appreciate your cooperation very much and thank you for it.

Ms. KLATKO. Thank you, Mr. Chairman and Mr. Emerson.

Mr. MONTGOMERY. Thank you.

Mr. PANETTA. Thank you.

The next panel consists of Mr. Walter Martz, assistant secretary-treasurer of the National Milk Producers Federation; Ms. Ruth Kobell the National Farmers Union; Richard Douglas of Sun Diamond Growers of California; Mr. Lew Walts, executive vice president for the National Turkey Federation, Reston, Virginia; and Mr. Randy Griggs, executive secretary of the Alabama Peanut Producers Association.

Welcome to the subcommittee hearing. I appreciate your taking the time to testify. Most of you are not newcomers to the process, and I do appreciate your coming here and giving us the benefit of your thoughts.

Let me begin with Mr. Walter Martz, if you would proceed with your testimony. Again, if you summarize, your prepared statement will be made a part of the record and inserted immediately following your oral testimony. You can either read or summarize your statement.

Mr. MARTZ. Mr. Chairman, I would like to first say to the lady who couldn't get cheese to melt, it must have either been an imitation cheese or a foreign cheese. [Laughter.]

STATEMENT OF WALTER A. MARTZ, ASSISTANT SECRETARY/ TREASURER, NATIONAL MILK PRODUCERS FEDERATION

Mr. MARTZ. Mr. Chairman, I am Walter Martz, a dairy farmer and an officer of the National Milk Producers Federation. I am also president of the Maryland and Virginia Milk Producers Association.

I appreciate this opportunity to appear before the subcommittee to present testimony on the commodity distribution program.

The National Milk Producers Federation is a national farm commodity organization that represents dairy farmers and dairy cooperative marketing associations they own and operate throughout the United States. The bulk of the nation's milk supply is marketed through dairy cooperative associations that farmers have developed to represent them in the market.

The marketing activities of these associations range from bargaining for price and other conditions of sale of bulk fluid milk products to the production of finished dairy products and the distribution and retail sale of such products to consumers. Virtually every dairy product that is produced in any substantial quantity in the United States is included in the product mix of the cooperatives represented by the federation.

The National Milk Producers Federation provides a vehicle through which dairy farmers and their cooperative marketing associations formulate policy on national issues which affect their ability to produce and market milk and dairy products. The federation and its membership seek to establish conditions under which farmers can join together to market their products in stable markets at prices which are reasonable to both producers and consumers.

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Since its founding in 1916, the federation has worked with Congress and the executive agencies to ensure the adoption of laws and the implementation of policies to further these basic goals.

The federation has long supported the child nutrition programs, the elderly nutrition programs, and the others that are a part of our national nutrition policy. Our active support of the nutrition programs dates back to the 1960's when many were first authorized as the nation began to confront hunger in America.

Farmers in this country realized that the bounty we produce needs to be purchased in commercial sales whenever possible to maintain our prices but that we had an obligation to support programs whereby food for the needy was made possible. Therefore, the federation has supported the creation and funding of these programs for over 20 years.

The National Milk Producers Federation fully supports the commodity distribution program as an important part of this nation's national food policy. As one of the companion programs to the agricultural price support mechanisms to assure adequate food production, the commodity distribution program is the most direct link between the producer and the nutrition programs.

Every developed nation which has stabilized production finds that in order to avoid food shortages, limited surplus production is inevitable. The commodity distribution program moves our surplus food supply directly to the segment of the population needing food assistance.

This program is, without doubt, beneficial to agricultural producers. In 1985, approximately $2 billion worth of food products, of which 60 percent were dairy products, or $1.2 billion, were contributed to and utilized by the nation's nutrition programs. On the other side of the equation, America's elderly, children, and needy benefited from the surplus removal programs through receipt of the $2 billion worth of food products for the feeding programs.

As for cost effectiveness, the commodity distribution program efficiently utilized America's agricultural bounty through the nutrition programs, providing about 20 percent of their total budget with little cost to their operations.

As has been pointed out here today, the commodity distribution program has a dual purpose. The first, which I have touched on, is the use of the program as a companion to our agricultural price support and stabilization programs for farmers and ranchers. The second purpose of the program is to move the surplus commodities into our national nutrition programs, and that is why we are here today in support of H.R. 1340.

The federation does not view the commodity distribution system as a one-way street or, as some would like to say, a dumping ground. We want it to work for the mutual benefit of the producer and the nutrition programs that utilize the food every day in feeding millions of people.

We have been aware that some nutrition program directors have complained about the administration of the program. We are sympathetic. I doubt that any of our cooperatives would appreciate receiving shipments of bulk supplies months after anticipated and long after the product could fully be utilized or economically stored.

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Schools and other feeding programs are under increasing pressure to be cost-effective and competitive. We respect the directors' need to be professional managers and wish to help implement the many program improvements they have recommended.

The timeliness and advance notice of the shipment of the commodity is but one of the many concerns program directors have expressed and are, therefore, addressed in H.R. 1340. The long list of commodity and farm organizations that support these changes reflect our desire to make sure the program is not a one-way street.

H.R. 1340 provides the opportunity to improve a beneficial program with little additional budgetary impact. Under the dairy price support program, surplus dairy products are purchased and stored by the Government through the Commodity Credit Corporation. While dairy price support program purchases have declined dramatically in calendar year 1986 and will continue to fall in 1987 due to the whole herd buy-out program, there will still be product available for the nutrition programs.

Other agricultural commodities are purchased by the Government through other support mechanisms. Beef, fruits and vegetables, fowl, and other food-stuffs are bought on the open market by the Government when prices become soft. Section 32 funding, accrued through tariffs on foreign imports, provides the financial mechanism to buy the products. Therefore, this committee has an opportunity to improve a program that is vital to the nutrition programs and the nation's producers with little budgetary impact.

Before concluding my statement, Mr. Chairman, I would like to request consideration of two changes in the legislation. The first would be to delete language on page 3, lines 5 through 7.

As you perhaps are aware, the current process of issuing dietary guidelines for Americans creates serious problems for many agricultural organizations, including the National Milk Producers Federation. Since we are attempting to change the method by which these guidelines are issued in other legislation, we would prefer not to tie one more program to the current process.

The second change the federation supports is adding language to H.R. 1340 which would ensure the continuation of the national commodity processing program. We have a copy of that amendment if you have not received it from other organizations.

In conclusion, Mr. Chairman, the commodity distribution program should not be a one-way street. H.R. 1340 is an opportunity to improve a program that has well served a dual purpose for many years. It is not often that public policy is effectively joined together for mutual purpose, but Congress, in its wisdom, created the commodity distribution program and needs to do some fine-tuning of the program to improve its administration for the benefit of our nutrition programs.

Thank you for the opportunity to express the support of the National Milk Producers Federation for H.R. 1340.

Mr. PANETTA. Thank you very much, Mr. Martz.

Ms. Kobell.

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STATEMENT OF RUTH E. KOBELL, LEGISLATIVE ASSISTANT, NATIONAL FARMERS UNION

Ms. KOBELL. Thank you.

I am Ruth Kobell, legislative assistant for the National Farmers Union, a general farm organization with members spread across the heartland of America.

I am happy to report that the National Farmers Organization, another general farm organization, has asked me to make it clear that they also are in support of H.R. 1340, the Agricultural Commodity Distribution Act of 1987, although they were not able to be represented here today.

As has been reviewed, the central objective of the commodity distribution program is to stabilize, to some extent, a limited number of agricultural markets and to improve prices of many commodities which are not otherwise protected by Federal legislation. Currently, we are talking about some $2 billion, and the case has been made that this is not a large part of farm production, but we believe it is an important part and an important tool to be used.

We believe that a major impact of the program has been to be able to target purchases to make the most effective use of the outlay of funds. This is directed toward temporary overproduction, thereby supporting growers' prices by removing any marginal part of local supply.

Certainly, farmers must rely on a price that will cover the production of their commodities if they are to stay in business, and we have a demonstration today addressed in other legislation of what happens when farmers do not get a price that allows them to stay in business. We also recognize that the costs of such efforts must be within the realm of reason.

I was interested that we referred to the problems we have in delivering beef. Certainly, part of the direction of this committee and of Congress, I think, was when they authorized the dairy herd buyout program that it not unduly affect, if possible, the beef producers' market, and you have used this mechanism to double the purchase of beef and direct it into this and other feeding programs.

We recognize that farmers have no control over weather and little control of other production aspects of farming and that sometimes because everything does come together in good shape, they do have more than the market will absorb. If pie cherries are in good supply in Michigan, they have to be picked and gotten to the cannery before they split and they are unusable. They also have to be gotten out of that pipeline before the next crop comes along, because you don't stop production unless you cut down the trees, and that isn't a very productive long-term goal.

It is part of the challenge, I believe, of maintaining a stable and abundant supply of food for our consumers in this country to protect the ability of farmers to continue to produce. Our organization has supported this program and other nutrition programs over the history of legislative action.

We believe that the proposal to shift this program to either a commodity letter of credit or, in some cases, to cash it out would lose much of the effectiveness. After all, if you simply had a CLOC to purchase cherries, it might be the Bing cherries of Montana

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which might be in short market supply or Queen Ann's. Certainly, the pipeline effect would not react immediately to the problem that Michigan producers experience.

We think that a CLOC program probably would be difficult to monitor accurately to measure the nutritional guidelines if that is mandated. There probably would be a tendency to use more prepared foods. It is hard to monitor salt content and other things in that. It also likely would cut the effectiveness of the support for farmers, because a good deal of the outlays would be used in the processing of the program.

So, we recognize that this program is a supplement to school budgets. It is not a replacement. Certainly, school districts and other programs provide the basic budget support, but this supplements the nutritional strengthening of these programs.

But we think it is also important that this provides the backbone of a delivery system, and perhaps the delivery system has not been as effective as we would have liked, but we think that it needs to be improved so that we don't throw the baby out with the bath water.

We must remember that there are a number of programs that piggy-back on the basic delivery structure here and that those are themselves important to other groups. It has been mentioned that this helps the school breakfast program, the child care, the summer feeding programs, needy families among American Indians, the temporary emergency food assistance program, $125 million per year to elderly nutrition support.

In addition, in 1982, USDA's food distribution program for charitable institutions helped provide meals for approximately 1 million people in 840,000 charitable institutions which did not participate in other commodity distribution programs. They included meals on wheels, community kitchens, homes for the aged, correctional institutions offering rehabilitative activities, group homes for the mentally retarded, and nonprofit hospitals.

We believe that it is important to maintain a delivery system that can serve these users as well.

Someone else has mentioned the value of maintaining supplies of commodities through our school lunch program for disaster relief in case of a hurricane or other disaster when transportation is disrupted. The fact that you have some commodities stored out there in the school and that you have perhaps a plant that can operate may be the readiest way to meet the crisis needs of people who have been left homeless.

In any event, we hope that, with our cooperation with the consumers of this program, we will be able to urge the Secretary to move with all possible haste to bring this program into an effective and efficient operation so that it can continue to serve the multiple uses for which we believe it has been successful.

Thank you very much.

[The prepared statement of Ms. Kobell follows:]

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NATIONAL FARMERS UNION

Statement of

Ruth E. Kobell
Legislative Assistant
National Farmers Union

to the

House Committee on Agriculture
Subcommittee on Domestic Marketing, Consumer Relations,
and Nutrition

REGARDING

Agricultural Commodity Distribution Act of 1987

March 18, 1987

Mr. Chairman:

I am Ruth E. Kobell, Legislative Assistant, National Farmers Union, 600 Maryland Avenue, S.W., Washington, D. C. 20024, representing farm families across the heartland of America. We appear in support of H.R. 1340, the Agricultural Commodity Distribution Act of 1987.

I am happy to report that the National Farmers Organization asked to join in support of this legislation, although their representative was not able to appear in person before you today.

A central objective of the commodity distribution program as stated in the law, is to stabilize agricultural markets and improve farm prices. For the last 45 years, it has served the dual purpose of removing agricultural commodities from the market and directing them to federally supported nutrition programs, the largest of which is the School Lunch program.

Currently, the U.S. Department of Agriculture spends nearly $2 billion a year in targetted commodity purchases for distribution, close to half of it in a variety of dairy products.

But a major impact of the program has been to be able to target purchases

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of largely unsupported agricultural products in areas of temporary overproduction, thereby supporting the grower's price by removing a marginal part of the local supply.

We believe that assuring the Secretary of Agriculture the flexibility to target purchases and assure consumption of this surplus food is an efficient and effective use of tax dollars. For instance, in 1985 about $146 million was spent on purchase of beef but in 1986, the government was expected to buy some $350 million pounds of beef, due to the slaughter of large numbers of dairy cows and the direction of Congress that steps be taken so that the dairy herd buyout not unduly depress the beef market.

Farmers have little or no control over weather and other conditions that effect harvest levels of their production. A bountiful crop of red pie cherries in Michigan must be picked and rushed to the cannery if they are to be saved. And they must be removed from the storage shelves to make way for the next crop. The commodity distribution purchase can move them into the nutrition programs during the time of greatest demand and clear the pipeline without unduly depressing the grower's price. After all, you can't stop production of a cherry tree one year without cutting it down, thus destroying productive capacity for the years ahead. Though that may seem a simplistic example, it is basic to the central challenge of maintaining an abundant and stable supply of food for all our nation.

National Farmers Union delegates meeting in convention at Fort Worth, Texas on March 1-4, 1987, adopted the following policy statement relating to this program:

> "The Commodity Distribution Program which targets purchases of some $2 billion of surplus commodities, half of which are not otherwise supported, should be continued to target the removal of surpluses, thereby strengthening the producer price at time of marketing. We oppose substituting a commodity letter of credit or cash to schools and other programs using these commodities."

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In the 1981 Food and Agriculture Act, Congress directed that a study be made of the impact of a shift from commodities to cash or letters of credit (CLOC), a proposal originally put forth in the early 1970s.

In May, 1986, USDA issued a report of the study which observed that a change to cash aid or credits would enable school districts to reduce the food inventories which they carry during the school year.

In the 60 school districts used as test sites in the 1981 study, there was a tendency to shift away from beef and poultry, away from milk, with increased use of prepared foods, such as pizzas, Mexican foods, bakery goods and fruit juices, thus decreasing the targeted impact of surplus commodity removal. The tendency to buy prepared foods rather than raw commodities could cut the farmer's share of food purchased by as much as 50%.

Nutritionally, the impact of demonstration purchases under cash or CLOC was, because of the tendency towards prepared foods, that more salt was supplied, less fat, less iron, but no appreciable change in consumption of sugar, fiber, and vitamins.

The Commodity Distribution Program has been developed to supplement the budgets of school lunch and other nutrition programs, and we believe it has some market promotion effect in exposing young people to a wider variety of foods.

We believe a CLOC program would be expensive and difficult to monitor to assure compliance with even the generic product called for. For instance, a CLOC for cherries, might well use other than the sour pie cherries which were in surplus in Michigan, and might well go to cherry pies that might or might not have the specified number of cherries called for in the purchase order.

The Food and Drug Administration has a pretty good record of monitoring the safety of our food supply and U.S. producers are anxious that the increasing quantities of imported food be required to meet U.S. quality and safety standards. But there is serious question whether FDA can adequately monitor whether

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imported broccoli has been sprayed with DDT. And it may be difficult for the school food service administrator to know whether the beef in a pot pie is from Australia or North Dakota, and the tomato sauce in a pizza is from Indiana or Spain.

Although the School Lunch Program is the largest user of donated commodities, a number of other feeding programs make use of this resource, including school breakfast, child care, summer feeding programs, needy families among American Indians, and the Temporary Emergency Food Assistance Program (TEFAP) which the Administration is intent on killing. About $125 million a year is devoted to elderly nutrition support.

In 1982, USDA's Food Distribution Program for Charitable Institutions helped provide meals for approximately 1 million people in 8,400 charitable institutions which do not participate in other commodity distribution programs. They included Meals-on-Wheels programs, community kitchens, homes for the aged, correctional institutions offering rehabilitative activities, group homes for the mentally retarded, and hospitals that offer general or long-term health care.

The state delivery systems which serve all these programs would be severely weakened or destroyed if the volume of commodities supplied to school lunch programs were routed through commercial channels by use of CLOC or cash payments. These delivery systems have been open to criticism as inefficient and costly in some instances. But it seems to us it is better to provide clear authority to the Secretary of Agriculture to work with states to improve these systems rather than to "throw out the baby with the bathwater".

Another benefit of maintaining supplies of commodities in school lunch facilities is having food available in case of natural disasters such as hurricanes which may temporarily wipe out local transportation systems at the very time when central feeding assistance is needed. Such stockpiles can be an important support of our national defense in times of crisis.

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This legislation, H.R. 1340, outlines specific actions to strengthen the delivery and administration of the program. These pinpoint many of the complaints of the administrators who use the commodities and action has already begun, we understand, by the USDA administrators to implement these improvements.

We urge the Committee to work for early passage of this legislation as a clear signal of the continuing commitment of the Congress to the agricultural commodity distribution program, a tested and effective use of tax support to assist agricultural producers in securing a fair price for their production and moving surpluses into effective consumption.

Thank you.

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Mr. PANETTA. Thank you very much for your testimony.

Now we are all anxiously awaiting the fig recipe from Mr. Douglas.

Welcome, Richard. It is nice to have you.

STATEMENT OF RICHARD DOUGLAS, VICE PRESIDENT, PUBLIC AFFAIRS, SUN-DIAMOND GROWERS OF CALIFORNIA

Mr. DOUGLAS. Thank you, Mr. Chairman.

First of all, I would like to take the opportunity to thank you, Mr. Chairman, and members of the subcommittee for holding these hearings. For the record, I am Richard Douglas, vice president of Sun-Diamond Growers of California. Sun Diamond is a federated cooperative made up of Sun-Maid raisins, Diamond walnuts, Valley figs, Sunsweet prunes, and Organ hazelnuts.

In addition, Mr. Chairman, I serve on the board of directors of the Agricultural Council of California. The Agricultural Council represents over 60,000 farm families throughout the Central Valley of California as well as over 62 agricultural cooperatives.

I am here today to speak in support of H.R. 1340.

Over the years, Sun-Diamond has provided commodities to the school lunch program and other needy feeding programs. We view this particular market as we do any commercial market. It is very important to us.

One of the things that we do in each of the boxes of commodities that leave any of our companies is include a recipe booklet, ways on how to utilize the commodity that we are shipping to the school lunch program or feeding program. On the question of fig nuggets, at the 1984 American School Food Service annual meeting in Philadelphia—I think it was 1985—we had a booth at the convention staffed by Sun-Diamond personnel, because we understood that fig nuggets was a new commodity, a new product in the schools, and we actually had test commodities or test products there whereby we demonstrated how fig nuggets could be used.

If you did not get any recipes, I would be more than happy to provide you with some.

Mr. Chairman, under the commodity donation program, the Secretary of Agriculture is authorized to purchase agricultural commodities which are in oversupply and direct them to the nation's feeding programs.

Producers of raisins, walnuts, figs, prunes, and other specialty crops that come out of California are not aided through Federal Government price support programs. Therefore, a timely purchase of commodities for these domestic feeding programs by the Secretary of Agriculture is the only manner in which the Department of Agriculture is able to respond effectively to the wide swings in production and price that characterize many segments of the American farm economy.

In summary, Mr. Chairman, many of the points that I have covered in my testimony were covered in your opening statement and by people who spoke before me. However, in summary, Sun-Diamond Growers as well as the Agricultural Council of California strongly support the current commodity donation program. We do

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so because it benefits America's farmers and rural communities, and I underscore rural communities.

At the same time, it also allows the Department of Agriculture to purchase wholesome and reasonably priced U.S. grown commodities, not foreign commodities, not the commodities from countries that subsidize their producers and export those commodities into the United States that drive our farmers into bankruptcy, but this program buys U.S. grown commodities.

Among the various proposals that are being thrown about, cash, commodity letters of credit, there is no guarantee that those school districts will buy U.S. produced commodities and support rural areas in America. So, for that reason alone, Mr. Chairman, we are firmly in support of this legislation.

We commend you and the committee for having the insight to see that the program needs fine-tuning. I have worked at the Department of Agriculture for several years, and I know that right now we have two different Assistant Secretaries and one Under Secretary that have the responsibilities for overseeing this program. In that bureaucratic mess, it is a wonder that the program is running as it is today, but I think under the leadership of Secretary Lyng, he has been able to provide the impetus to correct any deficiencies that may be in the program.

So, Mr. Chairman, that summarizes my testimony. Thank you, Mr. Chairman.

[The prepared statement of Mr. Douglas follows:]

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Richard Douglas
Vice President, Public Affairs
Sun-Diamond Growers of California

BEFORE THE SUBCOMMITTEE ON DOMESTIC MARKETING,
CONSUMER RELATIONS, AND NUTRITION OF THE
HOUSE COMMITTEE ON AGRICULTURE

STATEMENT OF SUN-DIAMOND GROWERS OF CALIFORNIA
REGARDING H.R. 1340, the "AGRICULTURAL
COMMODITY DISTRIBUTION ACT OF 1987

Mr. Chairman, we thank you for the opportunity to present our views to your Committee on the Agricultural Commodity Distribution Act of 1987. I am Richard Douglas, Vice President of Public Affairs for Sun-Diamond Growers of California. For the record, Sun-Diamond Growers of California is a federated processing and marketing cooperative consisting of Sun-Maid Growers of California, Diamond Walnut Growers, Sunsweet Growers, Inc., Valley Fig Growers, and Organ Hazelhut Growers.

Over the years, Sun-Diamond has supplied commodities, including raisins, walnuts, prunes and figs to the U.S. Department of Agriculture (USDA) Commodity Donation Program. We view this program as one of the most important programs administered by the U.S. Department of Agriculture. Under the Commodity Donation Program, the Secretary of Agriculture is authorized to purchase agricultural commodities which are in oversupply and direct them to the nation's nutrition programs.

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This program has a two-fold benefit -- (1) buying commodities at a time when an agricultural industry is depressed due to oversupply or other economic conditions, and (2) providing wholesome, reasonably priced agricultural products to the school lunch program and other needy feeding programs.

Producers of raisins, walnuts, prunes and figs are not aided through the federal government price support programs. Therefore, a timely purchase of commodities for these domestic feeding programs by the Secretary of Agriculture is the only manner in which the Department of Agriculture is able to respond effectively to the wide swings in production or price that characterize many segments of the farm economy. In short, Sun-Diamond strongly supports the current Commodity Donation Program because of the benefits not only to the producers, but the ability to purchase wholesome and reasonably priced commodities for the nation's feeding programs.

Nevertheless, we are aware that there have been numerous criticisms by some of the parties who deal directly with the Commodity Donation Program. We are aware that there have been complaints over the years involving transportation, storage and handling, delivery dates, packaging, and other concerns associated with providing food to the ultimate consumer under these programs. During the last several years, there have been proposals to cancel the Commodity Donation

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Program and move to either a "cash-in-lieu of commodities," or "commodity letter of credit" program. We believe that this would be a grave mistake. However, we also understand that the program can always be improved. While our overall experience with the program has been extremely satisfactory, we, too, have had experience where timelier decisions and better communication could have provided for more efficient operation of the program. We also recognize that the responsibilities of administering this program are diffused within USDA between the Agricultural Stabilization and Conservation Service, the Agricultural Marketing Service, and the Food and Nutrition Service. Nevertheless, our experience with USDA personnel at all levels of operation have been extremely positive; they are knowledgeable and have a deep commitment to the efficient maintenance and operation of this program.

With specific reference to H.R. 1340, Sun-Diamond believes that the modifications contained in these amendments should enhance the operation of the program. We believe that such legislative perfections should be made to the program, rather than wholesale changes in the form of the "cash" or the "commodity letter of credit" alternatives that have been suggested. Also, we believe that the establishment of an advisory council on the distribution of agricultural commodities and food products donated by USDA is a good idea.

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This council, under the direction of the Secretary of Agriculture, should be able to identify ways to continue to perfect the current program. One caveat in review of these changes is that we would not want to see the Secretary's hands tied in such a manner that he would not be able to respond quickly and effectively to move excess supplies at the time of harvest or as a result of some other market disruption, such as unfair trade practices. With these comments in mind, Sun-Diamond supports H.R. 1340.

In our opinion, the school lunch program and other needy feeding programs are as important to our business as any other market. We strongly support the current Commodity Donation Program. This program, which has been in effect for decades, has served the farmer and the ultimate consumer well. Through the use of this program, the Secretary of Agriculture can use his large volume purchasing power to assist farmers as well as our schools, institutions and emergency feeding programs.

Mr. Chairman, we commend you and this Committee for seeking ways to improve the performance and efficiency of the Commodity Donation Program.

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Mr. PANETTA. Thank you, Richard. You have provided another helpful insight into the need to coordinate this effort.

Mr. Walts, you may proceed.

STATEMENT OF LEW WALTS, EXECUTIVE VICE PRESIDENT, NATIONAL TURKEY FEDERATION

Mr. WALTS. Thank you, Mr. Chairman.

My statement is brief, but to make it even briefer, I will just go through it and pick out a few of what I think are the more salient paragraphs.

Mr. Chairman, I am Lew Walts, executive vice president of the National Turkey Federation. The members of the National Turkey Federation are responsible for the production and marketing of approximately 95 percent of the nation's turkey crop. California, Mr. Chairman and Mr. Herger, ranks third nationally behind North Carolina and Minnesota in the production of turkeys. And I would like, if you would pass on to Mr. Emerson, his State ranks fourth. Mr. Olin, we are very proud of the Commonwealth; it ranks fifth.

So, I do feel very warm and comfortable here today seeing representatives from the third, fourth, and fifth turkey producing States sitting up there at the head table, so to speak.

Mr. PANETTA. They usually say Washington, D.C. has the largest number of turkeys. [Laughter.]

Mr. WALTS. I am not going to touch that one, Mr. Chairman.

We are here this afternoon, Mr. Chairman, to lend our full support to H.R. 1340. This is a thoughtful piece of legislation, and it certainly deserves the support of all organizations interested in supporting American agriculture and the Federal nutrition programs.

The National Turkey Federation wants the commodity distribution program to be responsive to the needs of recipient agencies, because we want the USDA commodity distribution program to endure. In order to endure, it must be maintained and improved.

Now, this program is extremely important to the turkey industry. Last year, the Department purchased approximately 18 million pounds of turkey for distribution to eligible recipient agencies. To go back a few years, say, to the mid-1970's and the very early 1980's when the turkey market was below the cost of production and there were tremendous quantities of surplus birds out there, USDA purchased up to 4 percent of the turkey crop in some of those years.

Now, I have to conclusively tell you that this had the effect of stabilizing the market and bolstering prices received by producers. It is our opinion that USDA's ability to enter the market directly has an extremely important producer price stabilization effect that the National Turkey Federation wants to maintain.

As you know, Mr. Chairman, there has been some criticisms over the administration of the commodity distribution program, and there are those who would like to replace it with a letter of credit or commodity specific food stamp. It is our opinion, and we believe this very firmly, that neither of these systems will satisfy the agricultural goals of the commodity distribution program and that is to enhance prices paid to producers.

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For example, distributing commodity letters of credit or commodity food stamps to something like 90,000 schools that can redeem these over a 3- to 6-month period will not have the market impact of the Secretary announcing a national purchase program when producer prices are low.

I could go on and elaborate on that, but in the interests of time, I am not. However, in conclusion, Mr. Chairman, we commend you for introducing this legislation and for taking the time to hold this hearing. We believe the legislation makes important improvements in the operation of the commodity distribution program and will go a long way to address the concerns of the program's critics and, at the same time, maintain the price stabilization effect which is so important to the producers of agricultural commodities.

Now, if you will indulge me for just one moment, the frozen food people suggested several amendments for your consideration. I would like to address one of these just briefly.

One of these amendments says "provide nutrient content information which includes identification of the amounts of fat, sugar, and salt contained in all purchased commodities, raw and processed, on all purchased commodity produce labels and fact sheets."

Well, Mr. Chairman, we don't have any quarrel with the Department providing these kinds of information on a fact sheet that would be distributed to school lunch supervisors and administrators. But asking those companies who are bidding product into the program to also place this kind of information on their labels is going a wee bit too far, in our opinion. The reason we say this is that this would require these companies to print and inventory special labels that they would use only when bidding on school lunch product.

So, this would actually work an economic hardship on the companies that are bidding on the product.

Secondly, when the product would come into the school lunch kitchen, so to speak, and have this information on it, it would be of no value, because I would suspect that those persons actually working in the kitchen of these cafeterias and serving institutions really do not have that kind of need for that kind of information with regard to nutrient content.

So, I would suggest that this information be applied and distributed only to the school lunch supervisors and the administrators who have an overriding interest in the nutrient content of these commodities.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Walts follows:]

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STATEMENT

OF THE

NATIONAL TURKEY FEDERATION

BEFORE THE

COMMITTEE ON AGRICULTURE

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 18, 1987

Mr. Chairman, Members of the Committee, I am Lew Walts, Executive Vice President of the National Turkey Federation. The members of the National Turkey Federation are responsible for the production and marketing of approximately 95 percent of the nation's turkey crop. California, Mr. Chairman, ranks third nationally in the production of turkeys, behind North Carolina and Minnesota.

We are here this afternoon to lend our support to H.R. 1340, the Agriculture Commodity Distribution Act of 1987. This thoughtful piece of legislation deserves the support of all organizations interested in supporting American agriculture and the federal nutrition programs.

The USDA Commodity Distribution Program can be traced back to 1935 and the enactment of Section 32 in Public Law 74-320. Just because it has been with us for a while, however, does not mean that we should take it for granted. Like all successful institutions it must adapt and change from time to time.

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The school food service market has changed drastically in the last decade. Open school campuses, children making more of their own decisions at an earlier and earlier age, and the "offer versus serve" school lunch rule, mean that the Commodity Distribution Program must change if we are going to continue to satisfy one of our most important customers - - the nation's school children.

The National Turkey Federation wants the Commodity Distribution Program to be responsive to the needs of recipient agencies because we want the USDA Commodity Distribution Program to endure. In order to endure, it must be maintained and improved.

The USDA Commodity Distribution Program is extremely important to the turkey industry. Last year USDA purchased over 18 million pounds of turkey for distribution to eligible recipient agencies. In the mid-1970's and early-1980's, when the turkey market was below the cost of production and there were surplus birds, USDA purchased up to 4 percent of the turkey crop in some of these years. This had the effect of stabilizing the market and bolstering prices received by producers. USDA's ability to enter the market directly has an extremely important producer price stabilizing effect that the National Turkey Federation wants to maintain.

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In addition to its economic importance, the commodity program provides an important nutrition education function. By exposing our young people to good, nutritious, domestically-produced foods at an early age, we are also educating our customers of the future.

As you know, Mr. Chairman, there has been some criticism over the administration of the Commodity Distribution Program, and there are those who would like to replace it with a letter of credit or commodity specific food stamp. We do not believe that such a system will satisfy the agricultural goals of the Commodity Distribution Program...to enhance prices paid to producers.

For example, distributing commodity food stamps to 90,000 schools that can be redeemed over a three to six-month period will not have the market impact of the Secretary announcing a national purchase program when producer prices are low. Further, stamps can get lost, not be used, or worse - - fall into the wrong hands. When used for a substitutable commodity in a processed food it will be impossible to ensure that the original commodity is domestically produced. We could wind up with ground beef stamps being used to buy pizza topped with New Zealand beef, rather than American grown beef. You could make this practice illegal with a "Buy-American" provision, but policing will be impossible.

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For all these reasons, we commend this Committee for its support of H.R. 1340 and for taking the time to hold this hearing. We believe this legislation makes important improvements in the operation of the Commodity Distribution Program and will go a long way to address the concerns of the program's critics and at the same time, maintain the price stabilization effect which is so important to the producers of agricultural commodities.

Thank you very much for the opportunity to appear this afternoon. I will be happy to answer any questions.

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Mr. PANETTA. Thank you very much, Mr. Walts. We appreciate those comments.

Mr. Griggs.

STATEMENT OF H. RANDALL GRIGGS, EXECUTIVE SECRETARY, ALABAMA PEANUT PRODUCERS ASSOCIATION

Mr. GRIGGS. Thank you, Mr. Chairman and members of the subcommittee.

My name is Randy Griggs. I am executive secretary of the Alabama Peanut Producers Association located in Dothan, Alabama. I am here also representing the Peanut Advisory Board which is comprised of the Georgia Peanut Commission, the Florida Peanut Producers Association as well as our own organization.

The Peanut Advisory Board functions as the national promotional arm of these three States, and a substantial portion of our promotional efforts are geared toward school food service. Our three States traditionally produce approximately 65 to 70 percent of the nation's peanuts, and approximately one-half of the nation's domestically marketed peanuts are used in the manufacture of peanut butter. This represents about 600,000 tons of production to southeastern producers.

The commodity distribution program utilizes over 52 million farmer stock pounds of peanuts in the form of peanut butter, roasted peanuts, and peanut granules; 75 percent of this is peanut butter.

To agriculture, the commodity distribution program has two important functions. First, for many commodities it represents the method for the Government to help alleviate to some degree surplus production that causes extra Government costs and depressed farm prices. This is especially true for highly perishable products.

Furthermore, the program has the flexibility to target these purchases to specific production areas when advantageous. This was referred to by several other commodity groups here today.

The second point is the area the peanut producers feel is most important to our industry. The commodity distribution program is an excellent market development tool for American agricultural products. School food service reaches practically every child who attends the public education system. It is during these formative years that many of the tastes and preferences are acquired that they carry into adulthood.

While delivering wholesome, nutritious meals is paramount, it is very important that they be exposed to the products that have made our country's agricultural production the envy of the world.

Peanut butter, for example, is an identifiable tradition that is wholly American in nature. There are few countries around the world that have peanut butter available.

Those few that market the product do not have the universal acceptance that we do in the States. Americans have a strong affection for peanut butter because they know it is nutritious and convenient, and it is a food that they grew up with. Because of our wide and diverse heritage, there are many kids that would not have developed a taste for peanut butter if it had not been for school food services.

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Today, Americans consume over 780 million pounds of peanut butter a year. Kids having grown up with peanut butter is the primary reason. School lunch combined with Saturday morning advertising deserves most of this credit.

Adults who grew up with peanut butter represent two distinct markets to us. They buy it first for the kids because it is nutritious, convenient, and the kids love it. They also buy it for themselves and represent a growing market of adult peanut butter consumers.

The commodity distribution program is also cost effective. Every evaluation of a Government program, sooner or later, has to concern itself with the cost. The commodity distribution program will continue to deliver the least unit cost of a product to alternative programs proposed over the years. Furthermore, the USDA maintains the control to be sure that the products that are requested are the products that are being delivered.

While there are improvements that can be made in practically any program, the concepts that are addressed in the needs essentially should remain intact. That is what H.R. 1340 is seeking to accomplish. It is an honest and sincere effort by interested parties in the commodity distribution issue to allow the USDA to make refinements that would improve the commodity distribution program to everyone's benefit.

Mr. Chairman, on behalf of the peanut producers of the Southeast and the Peanut Advisory Board, I express my appreciation to you for allowing our testimony. I hope your committee will continue to support the commodity distribution program that reaches and benefits so many,.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Griggs follows:]

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TESTIMONY BEFORE THE HOUSE COMMITTEE ON AGRICULTURE
ALABAMA PEANUT PRODUCERS ASSOCIATION
FOR
THE PEANUT ADVISORY BOARD
MARCH 18, 1987

Mr. Chairman, members of the Committee, ladies and gentlemen, it is a pleasure to appear before you today and present our comments on the Commodity Distribution Program. My name is H. Randall Griggs and I am Executive Secretary of the Alabama Peanut Producers Association located in Dothan, Alabama. I am also representing the Peanut Advisory Board, which is comprised of the Georgia Peanut Commission, the Flordia Peanut Producers Association and our organization.

The Peanut Advisory Board functions as the national promotional arm of the three states, and a substantial portion of promotional efforts are geared toward school food service. Our three states traditionally produce approximately 65 to 70 percent of the nation's peanuts (1986 Southeast production - 1.175 million tons . Approximately one-half of the nation's domestically marketed peanuts are used in the manufacture of peanut butter. This represents about 600,000 tons to Southeastern producers.

The Commodity Distribution Program utilizes approximately 52.3 million farmer stock pounds of peanuts in the form of peanut butter, roasted peanuts and peanut granules ($18,970,360 in finished product). Seventy-five percent of this is peanut butter.

I would like to take a few minutes to address the Commodity Distribution Program from the perspective of its enhancement to agriculture, and particularily peanuts. I am sure that you will hear comments on its value to the school food service industry from the experts in that field.

To agriculture, the Commodity Distribution Program has two important functions. First, for many commodities it represents a method for the government to help alleviate to some degree surplus production that causes excess government costs and depressed farm prices. This would be especially true for highly perishable products. Futhermore, the program has flexibility to target these purchases to specific production areas when advantageous.

The second point is the area that peanut producers feel is the most important to our industry. The Commodity Distribution Program is an excellent market development tool for American agricultural products. School food service reaches practically every child who attends the public education system. It is during these formative years that many of the taste and preferences are acquired that they carry into adulthood. While

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delivering wholesale nutritious meals is paramount, it is very important that they be exposed to the products that have made our country's agricultural production the envy of the world.

Peanut butter for example, is an identifiable tradition that is wholly American in nature. There are few countries around the world that have peanut butter. Those few that market the product do not find the universal acceptance that we do in the states. Americans have a strong affection for peanut butter because they know it's nutritious and convenient, and it is a food that they grew up with. Because of our wide and diverse heritage there are many kids that would not have developed a taste for peanut butter if it were not for school food service.

Today Americans consume over 780 million pounds of peanut butter annually. Kids having grown up with peanut butter are the primary reason. School lunch combined with Saturday morning advertising deserve the credit. Adults who grew up with peanut butter represent two distinct markets. They buy it for their children because it's nutritious, convenient, and kids love it. They buy it for themselves and represent a growing market of adult peanut butter consumers.

The Commodity Distribution Program is also cost effective. Every evaluation of a government program, sooner or later, has to concern itself with the cost. The Commodity Distribution Program will continue to deliver the least unit cost of a product than the alternative programs proposed over the years. Furthermore, the USDA maintains the control to be sure that the products that are requested are the products being delivered.

While there are improvements that can be made in practically any program, the concepts that are addressing the needs successfully should remain intact. That is what House Bill 1340 is seeking to accomplish. It is an honest and sincere effort by interested parties on both sides of the commodity distribution issue to allow the USDA to make refinements that would improve the Commodity Distribution Program to everyone's benefit.

On behalf of the peanut producers of the Southeast and the Peanut Advisory Board, I again express my appreciation to you for allowing our testimony. I hope your Committee will continue to support this Commodity Distribution Program that reaches and benefits so many.

Thank You.

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Mr. PANETTA. Thank you, Mr. Griggs. I appreciate your testimony. It is extremely interesting to hear from the various groups that have spoken on this issue about the impact that a program like this can have in terms of those particular commodities and products that are produced.

Let me introduce for the record testimony from the United Fresh Fruit and Vegetable Association in support of H.R. 1340, the National Grange's testimony in support of this legislation, and the Food Research and Action Center, which also supports this legislation.

You have all basically commented on the CLOC proposal. Is it generally your feeling that this proposal would detract from the main thrust of what the commodity distribution program is all about if you provide a letter of credit? Is that your sense?

Mr. WALTS. Yes, sir. From the National Turkey Federation's point of view, that is true. We don't like the commodity letter of credit at all because we feel it will not make the type of impact on market values as will an announcement by the Secretary and the subsequent announcement by the Department of the quantities of produce purchased and the prices paid. If you go under a commodity letter of credit, all that will be masked.

Mr. PANETTA. I see.

Ms. KOBELL. It seems to me also likely that difficulties that could develop in trying to properly monitor a commodity letter of credit could move us perhaps closer to cashing out the program and I think probably another step to simply cutting back the support both for the schools and for producers.

Mr. PANETTA. I guess the thing we have to keep a focus on is that this was really a dual purpose program. Obviously, part of it is to feed children as well as to buy food for children, and that is an important part of it. The other part of the program is to reduce surpluses and to try to help the farmer in that process. You have to keep your eye on both of those parts if this program is going to work.

Mr. DOUGLAS. Mr. Chairman, in your opening remarks, you commented on the dual nature of the program and how, of all Government programs, this is one program that has achieved dual goals. In California, we passed a resolution at the Agricultural Board of Directors opposing cashing out or going to CLOC simply because of the market impact.

The timeliness of announcements at the Department of Agriculture is critical if we are going to keep prices firmed up, and it is a great deal for the school systems because, for example, we always bid at cost. We build no margin, no profit, no overhead into our bids to the Department of Agriculture because our objective is to draw down that supply and to try to achieve equilibrium once again.

Mr. PANETTA. With all due respect to all the other commodities that are out there, the fact is that this is the one area where you have the opportunity to assist in the marketing of a lot of fresh fruits and vegetables, and this is about the only program that I think has a direct impact on that. It really does apply across the board in terms of agricultural products.

Mr. Olin.

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Mr. OLIN. Thank you, Mr. Chairman.

I don't have any questions, but I just want to make note it is a pleasure to have Mr. Martz here. Some of my dairymen market their products through his association. It is good to see Mr. Walts and, to Mr. Peanut at the end, Mr. Griggs, you really made me hungry when you gave your talk. I don't know how many years when I was going to school—it must have been around 8 or 10—I had two peanut butter and jelly sandwiches every noon, and I still love them.

Thank you very much.

Mr. GRIGGS. Thank you.

Mr. PANETTA. I think my kids would say amen to that.

Well, again, thank you all. As I said, I think this has been a very interesting hearing in the sense that there is a great consensus that we need to sharpen up the commodity distribution program and these steps need to be taken. I think we can work our way through some of the proposals and amendments. I appreciate the concerns. If there are any other concerns that you have regarding amendments, please alert our staff.

My hope is that once we have gone through the testimony and the various recommendations, we can sit down and work out this proposal so we can mark it up within the next few weeks and try to move it to the floor as quickly as possible.

I want to thank you and all of those who have testified today. I will leave the record open for all comments for approximately a week so that any additional testimony that individuals wish to submit can be included.

I see my colleague from California is here. I don't know whether the gentleman has any questions to ask our panel or not, but I will give you that opportunity, Wally, if you would like.

Mr. HERGER. Thank you very much, Mr. Chairman. It is good to be with a group that has a good program so many of us have been supporting.

Mr. Douglas, I have a quick question for you. Do you have an approximate idea of the volume of nutritious U.S. grown, fruit that we have moved into the program, and do you have any idea approximately of what that has meant to our industry in terms of prices our producers have been able to maintain.

Mr. DOUGLAS. I can give you a very specific example, Congressman, with the fig industry. Two years ago, the fig industry, because of Turkish imports, was on the verge of collapse. We had a 2-year supply of fig paste. The Department of Agriculture, recognizing the fact that this was a very small industry and could not afford to file a 301 GATT case, came in and purchased fig paste and figs in the form of nuggets. That, Congressman, saved the fig industry.

It is a very small industry. We have only 90 producers in the Fresno area. That purchase by USDA allowed the fig industry to get back up on its feet and saved the industry and saved 90 farm families.

We have moved prunes, figs, walnuts, raisins into the program over time. I cannot give you exact numbers. I can provide that to you if you would like it, but it has been in the millions of dollars and it has been of great benefit at a time when it was needed.

Mr. HERGER. Thank you.

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Mr. PANETTA. Mr. Emerson, do you have any questions?

Mr. EMERSON. No, thank you.

Mr. PANETTA. Again, thank you all for your testimony. T record will remain open, and we hope to move this legislation ex ditiously.

[Whereupon, at 3:23 p.m., the subcommittee recessed, to rec vene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

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United Fresh Fruit and Vegetable Association

727 North Washington Street, Alexandria, Va. 22314

703/836-3410
Telex: 510 101-2401

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TESTIMONY

of the

UNITED FRESH FRUIT AND VEGETABLE ASSOCIATION

on

H.R. 1340

The Commodity Distribution Reform Act of 1987

before the

Subcommittee on Domestic Marketing,

Consumer Relations and Nutrition

Committee on Agriculture

U.S. House of Representatives

Washington, D.C.

March 19, 1987

Submitted By:

Sharon E. Bomer
Director, Government Relations
United Fresh Fruit and Vegetable Association
727 North Washington Street
Alexandria, Virginia

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The United Fresh Fruit and Vegetable Association (United) is pleased to take this opportunity to testify in support of H.R. 1340, the Commodity Distribution Reform Act of 1987.

United is the national trade association for the fresh produce industry. The 2,500 member companies include growers/shippers, brokers, wholesalers, retailers and affiliated industries. Over 80 percent of the fresh produce commercially sold in the United States is handled by United members.

The commodity donation program was initiated as a result of the Agricultural Adjustment Act of 1949. The basis of the program is to utilize commodities which are removed from the marketplace to stabilize prices. The commodities are donated to the National School Lunch Program, Summer Food Service Program, Child Care Food Program, Temporary Emergency Food Assistance Program, and other important nutrition feeding programs. Fresh produce commodities donated under the program include: baking potatoes, white potatoes, apples, d'anjou and bosc pears, walnuts, and almonds.

There has been a steady increase in USDA donated fresh produce -- FY 1984: $4.758 million (13.163 million lbs); FY 1985: $7.063 million (16.782 million lbs.); and FY 1986: $7.856 million (25.052 million lbs.). Although these amounts may not be large in proportion to the entire commodity distribution program, they are important to the producers of those commodities ensuring a reasonable price on the open market.

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Stabilization of market prices is vital to sustain incomes for farmers. One of the major benefits to the fresh produce industry of government purchases of excess commodities is the timing and location of the removals. Because of the perishable nature and the supply/demand economy of these products, it is vital to the stability of prices to remove produce at specific times of the harvest season and in geographically sensitive areas.

Part of the debate which has surrounded the efficacy of the current commodity distribution program focused on the utilization of commodities by the schools. As a result, a pilot project was conducted beginning in 1981 to examine the possibility of using either a commodity letter of credit (CLOC) or Cash in lieu of commodity (CASH) to replace the actual distribution of commodities. A member of the United staff served as an advisor on that project.

Although the report concludes that CLOC, CASH and the commodity donation could equally serve the producers and end user, it fails to take into account a major facet of growing and harvesting of fresh fruits and vegetables. The report does not account for the importance of removing fresh produce from the market in a particular geographical region or at a specific period of time. The geographical and timeliness of the removal is the greatest factor in stabilizing market prices.

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Neither CLOC nor CASH can regulate removals of commodity by where the produce is grown or the timing of the removal. For this reason, United strongly opposes any efforts to institute the CLOC or CASH programs.

United realizes, however, that there are weaknesses in the current commodity donation program. H.R. 1340 would correct some of those inefficiencies by providing food that more adequately meets the needs of the schools in quality, package sizes, form, nutrition, and distribution. United hopes that these improvements would strengthen the current program and avoid attempts to expand or continue the CLOC and CASH pilot projects.

United congratulates this committee on taking such prompt action on this important program, and urges the committee to report favorably H.R. 1340.

United would be pleased to respond to any questions.

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United Fresh Fruit and Vegetable Association

727 North Washington Street, Alexandria, Va. 22314

703/836-3410
Telex: 510 101-2401

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William H. Seabolt
Stanton Stores, Inc
Grand Rapids, Michigan

Donald P. Schroeder
Fleming Companies, Inc.
Oklahoma City, Oklahoma

Alan L. Sligar
Consumers Produce Company, Inc
Pittsburgh, Pennsylvania

John Smith
Public Sugar Markets, Inc.
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B.R. (Bill) Verdoorn
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President
Roger J. Stroh

Vice President, Government Relations
Robert C. Keeney

March 20, 1987

The Honorable Leon Panetta
Chairman
Sucommittee on Domestic Marketing,
 Consumer Relations and Nutrition
Committee on Agriculture
1430 Longworth Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

United Fresh Fruit and Vegetable Association requests that the following additional comments be submitted for the record on H.R. 1340 the Commodity Distribution Program Reform Act of 1987 These remarks focus specifically on recommended amendments to H.R. 1340 by the National Frozen Food Association, Inc (NFFA).

United strongly opposes NFFA's amendment which would remove the words "to the maximum extent practicable" wherever they appear Flexibility must be provided to the U.S Department of Agriculture to insure that the commodity distribution program meets the needs of the agricultural community and the school foodservice community. By removing the words "to the maximum extent practicable", USDA would be unable to meet the needs of the agricultural community.

United strongly opposes NFFA's amendment to require that nutrient content information for fat, sugar and salt be identified with the commodity. In the case of fresh fruits and vegetables it is impossible to identify actual amounts of these since each piece of fruit or vegetable has different amounts depending on maturity, age conditions while growing and handling and storing conditions.

Finally, United is strongly opposed to an amendment which would allow recipient agencies the option of the Commodity Letter of Credit (CLOC) after year from the date of enactment of the legislation. In addition to providing an unnecessary encumberance on USDA by requiring that they operate two programs, CLOC fails to meet the needs of the agricultural community which is the primary purpose of the commodity distribution program. CLOC fails to provide that the recipient agencies will buy U.S. products.

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Also as mentioned in United's earlier comments, CLOC fails to remove excess commodities at the particular time and location needed. For the fruit, vegetable and nut industry, the only mechanism to remove excess commodities and stabilize prices is the current commodity distribution program.

Thank you for allowing United to provide extended comments on H.R. 1340. United fully supports your efforts to address this issue quickly keeping in mind the dual purposes of the program.

Sincerely,

Sharon Bomer

Sharon E. Bomer
Director, Government Relations

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FRAC
FOOD RESEARCH AND ACTION CENTER

March 17, 1987

The Honorable Leon Panetta, Chairman
House Agriculture Subcommittee on
Domestic Marketing, Consumer Relations
and Nutrition
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Panetta:

We at FRAC would like to commend you and your colleagues for introducing HR1340, the Agriculture Commodity Distribution Act of 1987. This legislation seeks to improve the commodity distribution program by making it more efficient and responsive to both the consumers and the producers it serves. We support HR1340 and urge its passage.

Over the years, U.S. Department of Agriculture commodities have been a principal weapon in the fight against hunger. In the early 1930's federally donated commodities were given to school lunch programs in communities devastated by the Great Depression. These commodities were used to prepare meals by employees of the Works Progress Administration. In 1946 the National School Lunch Act was enacted with the following statement of purpose:

> "It is the policy of Congress, as a measure of national security, to safeguard the health and well-being of the nation's children and to encourage the domestic consumption of nutritious agriculture commodities and other food" to establish, maintain, operate and expand nonprofit school lunch programs"

Today, several nutrition programs have commodities as an integral component. Free and reduced-price school lunches are prepared for needy students with USDA commodities. The Native American Food Distribution Program, the Temporary Emergency Food Assistance Program (TEFAP), the Elderly Nutrition Program, the Commodity Supplemental Food Program (CSFP) and the Child Care Food Program all use these commodities to alleviate poverty and hunger for America's vulnerable populations. Our concern is that the USDA Commodity Distribution Program is badly in need of

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reform. Many groups believe there is a need to improve the quality of available commodities and to make them available to recipient agencies in usable sizes. More reliable delivery schedules must be developed so that schools and other recipient agencies do not have excessive storage charges. Also there is a need to improve program administration of food programs so that recipients throughout the country have an equal opportunity to receive these commodities.

Mr. Chairman, our concern is that if the Commodity Distribution Program is not improved from time to time to reflect the needs of recipient agencies, then support for the overall commodity distribution program will deteriorate. If the Commodity Distribution Program were phased out for lack of support, it would be difficult to continue the infrastructure currently necessitated by the school lunch commodity distribution program. If the infrastructure collapses, its difficult to envision the successful continuation of the smaller programs which rely totally on commodities, such as TEFAP, the Native American Food Distribution and CSFP. HR1340 is a step in the right direction. It is responsive to the needs of agricultural producers and recipients agencies and therefore has our strong support.

Sincerely,

Edward M. Cooney

Edward M. Cooney
Deputy Director

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THE NATIONAL GRANGE



WRITTEN STATEMENT BY
THE NATIONAL GRANGE

SUBMITTED TO THE
SUBCOMMITTEE ON DOMESTIC MARKETING, CONSUMER RELATIONS
AND NUTRITION
OF THE
HOUSE AGRICULTURE COMMITTEE

MARCH 18, 1987

RE: H.R. 1340 (THE AGRICULTURAL COMMODITY DISTRIBUTION ACT OF 1987)

Family Farm Organization Serving Rural America

THE NATIONAL GRANGE, 1616 H STREET, N.W. WASHINGTON, D.C. 20006

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Mr. Chairman, members of the Subcommittee, the National Grange is pleased to submit our thoughts on the current commodity distribution program and ways to improve that program. The National Grange, headquartered in Washington, D.C., was founded in 1867 and, today, represents approximately 400,000 members in 41 states. Our concerns with the economy and structure of rural America are the bases for our involvement with this program.

The original purpose of the commodity distribution program was to remove surplus commodities from the marketplace to benefit the agricultural producer and stabilize prices. The government was forced to find a home for the product, causing the program to be a "push" type of program. Today, we are looking at legislation that will make it more of a "push-pull" relationship.

In the past couple of years, a few members of Congress have investigated a new program called the Commodity Letter of Credit (CLOC) to replace the current program. We have in the past been opposed to the CLOC and continue to be opposed to it today. However, we do realize there is a need to recognize the concerns of the end user, creating a program that not only benefits agriculture, but is responsive to the needs of the customer as well.

The major problem that the Grange sees with CLOC is its lack of specificity; the requirements for purchase are too broad. Allow us to share a few examples.

1) If there is a market bunching problem with peaches in the Southeast and Mid-Atlantic states during harvest in June and July, the current program would allow the Department to buy 30 or 40 loads of peaches to solve the time specific and product specific problem. The CLOC program would allow a school district to buy

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canned cling peaches later in the fall. This purchase 2 or 3 months later does not help the correct market nor does it happen at the right time.

2) If the egg laying industry has a problem selling spent hens, the USDA can buy spent hens under the current program. If the letter of credit for chicken was used to buy broilers, no relief would be given to the spent hen dilemma.

3) In the situation of a year round product such as beef, the Department becomes the residual claimant of the product. A beef packer/processor sells as much product as demanded by his customer. Then to stabilize the price to the beef industry, the government buys the packer/processor's excess capacity. This time specific, commodity specific, location specific purchase could not be made with the letter of credit.

4) Further, the CLOC cannot monitor import usage. The current program must buy domestically produced commodities so that domestic producers receive the benefit of Section 32 surplus funds. Under the CLOC program, a school district may buy Campbells soup which contains Mexican tomatoes or Spanish tomato paste, while the current program would assure that American tomatoes were used in tomato soup and tomato paste purchased for distribution.

The Department has recognized there is a problem with the current program nd is moving forward on corrections. In fact, Secretary Lyng has made a ommitment to use his newly appointed Blue Ribbon Committee to improve the rogram.

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Even with this commitment, however, we believe that H.R. 1340 is necessary to continue Departmental efficiency and to provide authority where the Department is currently lacking such authority. The problem is there are areas where different levels of government are involved and one level has no authority over the other. The performance standards of the legislation will help.

Particularly, we believe the packaging size portion of the bill is important. The easier the product is to handle and the more useful the product is, the more willing the consumer will be to use the product. The other important part of the bill is the delivery time specifications. It is vital for scheduling that the end user know when the product will be delivered. Therefore, we highly recommend the use of the "delivery period" instead of the "shipping period". The delivery period is more convenient to the user and the switch will be easier as the use of trucks replace the use of trains. In fact, the Department has indicated they are making this change.

One other recommendation this Subcommittee may wish to consider is using the USDA for assistance in state operations. With the expertise in a variety of areas, the Department could provide operational assistance to each state to improve their system rather than simply writing rules and regulations without the ability of hands-on-teaching. This could be similar to the efficiency training McDonalds provides for each franchise.

Mr. Chairman, we must maintain the current program for commodity distribution so that the program meets the original goal of agricultural assistance. At the same time, however, we must be sure the right product gets to the right place at the right time in the right condition and at the right price.

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